



*Norfolk Botanical Gardens*

# Comprehensive Annual Financial Report

Employees' Retirement System of the City of Norfolk

A Pension Trust Fund  
of the City of Norfolk, Virginia

Fiscal Year Ended June 30, 2013

# **COMPREHENSIVE ANNUAL FINANCIAL REPORT**

## **Employees' Retirement System of the City of Norfolk A Pension Trust Fund of the City of Norfolk, Virginia**

**For the Fiscal Year Ended June 30, 2013**

**Prepared by the Employees' Retirement System Staff  
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INTRODUCTORY SECTION  
(Unaudited)

INTRODUCTORY SECTION



Government Finance Officers Association

**Certificate of  
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Presented to

**Employees' Retirement System  
of the City of Norfolk, Virginia**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2012**



Executive Director/CEO

## INTRODUCTORY SECTION



December 13, 2013

### Letter of Transmittal

The Board of Trustees  
Employees' Retirement System of the City of Norfolk  
Norfolk, Virginia 23510

The Comprehensive Annual Financial Report (CAFR) for the Employees' Retirement System (System) of the City of Norfolk for fiscal year ended June 30, 2013 is submitted herewith. The System is a Pension Trust Fund included in the financial statements of the City of Norfolk, Virginia. The System administration is responsible for the accuracy and fairness of information contained in this report. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the plan net assets and changes in plan net assets of the System in accordance with U.S. generally accepted accounting principles (GAAP).

The System is the administrator of a single-employer contributory defined benefit plan that covers substantially all employees of the City of Norfolk, excluding Constitutional Officers and School Board employees who are covered by the Virginia Retirement System. Although the System presents separate financial statements, it is also included as a pension trust fund, fiduciary fund type in the City of Norfolk's CAFR.

Management's Discussion and Analysis (MD&A) as required by GAAP is included in the financial section of this report. The MD&A provides a narrative overview and analysis of the financial status of the System for the year ended June 30, 2013 (for more information, see pages 12 through 15).

### System History

The Employees' Retirement System is a defined benefit plan that was established by Section 37 of the Code of the City of Norfolk, Virginia, and began operations as of January 1, 1942. Section 37 of the Code, as amended from time to time, established the authority under which the City of Norfolk's obligation to contribute to the plan is set forth. A single fund is used for all participants and there is no segregation of assets for individual classes of employees.

## **INTRODUCTORY SECTION**

### **Letter of Transmittal** (continued)

#### **Benefit Provisions**

The System provides normal and early service retirement benefits as well as death and disability benefits. All benefits vest after five years of creditable service effective January 1, 1997. Ad hoc cost-of-living adjustments are provided at the discretion of the City Council. The benefit provisions of the plan are also determined by Section 37 of the Code.

On October 8, 2013, after the June 30, 2013 fiscal year end, the City Council of the City of Norfolk approved Ordinance Number 45,278 that provided a limited period for members in service on November 30, 2013 and who were eligible for normal service retirement, to elect to participate in a Voluntary Retirement Incentive Program (VRIP). Eighty-one (81) employees elected to participate in the program were required to retire on December 1, 2013.

The Retirement Office staff provides counseling to all benefit applicants and to others requesting counseling. Presentations at new employee orientations and at various employee groups meetings are provided as requested throughout the year. All forms and retirement planning information are available in the Employees' Retirement Office, 810 Union Street, Suite 309.

#### **Accounting System and Internal Control**

Financial statements included in this report are the responsibility of the System's management and have been prepared in accordance with the principles of governmental accounting and reporting requirements promulgated by the Governmental Accountant Standards Board (GASB). The 2013 financial statements have been audited by KPMG LLP in conjunction with the City of Norfolk's annual audit.

The accrual basis of accounting is used to record assets, liabilities, additions and deductions of the System. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. In developing the accounting system, consideration was given to the adequacy of internal accounting controls. These were designed with the concept of reasonable rather than absolute assurance recognizing that the cost of a control should not exceed the benefits likely to be derived and that the calculation of costs and benefits requires estimates and judgments by management. A continuing effort is being made towards improving the controls to provide reasonable assurance of proper recording of financial transactions in all material respects.

## **INTRODUCTORY SECTION**

### **Letter of Transmittal** (continued)

#### **Funded Status**

A pension plan is considered adequately funded when reserves are available to meet all expected future obligations to participants. The System's funding objective is to meet long-term benefit payments through investment returns on trust fund assets and annual employer and employee contributions. The advantage of a well-funded plan is that participants are confident that sufficient assets are available for the payment of current and future member benefits. An actuarial valuation of the System to determine funding requirements is performed annually. The actuarial valuation used for this report period was completed with payroll data as of June 30, 2013. Information from this report is included in the Actuarial Section.

The City of Norfolk's commitment to provide a financially sound retirement plan for its employees is illustrated in two schedules contained in this report. "The Schedule of Funding Progress" found in the Required Supplementary Information of the Financial Section, expresses plan net assets as a percentage of the actuarial accrued liability, which provides one indication of the System's funding status. The "Schedule of Employer Contributions" includes historical trend information about the annual required contributions (ARC) of the employer and the contributions made by the employer in relation to the ARC. As of June 30, 2013, the System's funded ratio is 82.3%, an increase of 1.6% from 80.7% as of the June 30, 2012. This funded ratio does not include any market movements since June 30, 2013. The next valuation will reflect market conditions through June 30, 2014.

#### **Investments**

The Board of Trustees (Trustees) for the Employees' Retirement System formally amended and adopted a written Statement of Investment Policy on January 9, 2013 that includes the guidelines and objectives for the investments of the System. The policy is reviewed annually and changes are made as warranted. During the fiscal year, the System adopted an asset allocation of 33% Domestic Equities; 22% International Equities; 35% Fixed Income; 5% Real Estate and 5% Master Limited Partnerships.

The Trustees are empowered to invest the System's assets utilizing the "Prudent Person" standard and to take appropriate action regarding the investment, management, and custodianship of plan assets. The investment responsibilities include establishing reasonable investment objectives, developing investment policy guidelines, selecting investment managers, and evaluating performance results to assure adherence to guidelines and the achievement of objectives. Each investment manager must adhere to the guidelines established by the Trustees for investment asset quality, diversification, liquidity and risk. Both annual and longer term (3 to 10 years) goals for investment returns are established for each manager. Attainment of these goals weighs heavily in terms of whether or not a manager's contract is renewed. Typically, managers who fall below the Board's minimum objectives over the longer term are replaced.

The Board of Trustees recognizes that the objective of a sound and prudent investment policy is to generate total returns consistent with its risk tolerance and return requirements. The Board of Trustees has carefully exercised its responsibility by prudently diversifying the System's assets.



## **INTRODUCTORY SECTION**

### **Letter of Transmittal** (continued)

The System has converted the majority of its portfolio to a passive investment structure. With the exception of the PIMCO fixed income securities, real estate funds managed by JP Morgan and UBS Trumbull, and master limited partnerships managed by Harvest Fund Advisors and Tortoise Capital Advisors, all of the System's investments were consolidated into a passive approach with State Street Global Advisors (SSgA) in 2008. It is currently the intent of the Board to maintain this structure for the portfolio.

The investment results of each manager as well as the result for the total fund are monitored by an independent pension investment advisory firm who reports its findings to the Board on a monthly basis. The pension investment consultant interacts with the System staff; prepares recommendations on investment policies, investment management structure, and asset allocation. The consultant also monitors and evaluates the performance of the investment managers and effectiveness of the custodian.

The net assets of the System as of June 30, 2013 was \$954.7 million, an increase of \$69.2 million from the prior year balance of \$885.5 million. Investment return for the year was 12.1%. The System is financially and actuarially sound, and well positioned to pay retirement benefits as they are due. A summary of the Fund's asset allocation and historic returns can be found in the Investment Section of this report.

### **Current Economic Condition**

The strong equity rally continued in the third quarter of 2013. Interest rates were volatile during the quarter, ending slightly higher after the Federal Reserve decided not to taper its current level of bond purchases. The fair market value of the System's investment portfolio has risen approximately 4% from June 30, 2013 through September 30, 2013. As a result, the market value of the portfolio has risen to \$947.6 million as compared to \$925.5 million at June 30, 2013. During the third quarter of 2013, the US equity market (Russell 3000 Index) returned 6.3%, international markets returned (MSCI ACWI ex US Index) 10.1%, and fixed income (Barclays Aggregate Index) returned 0.6%. Equity investors were rewarded in this environment.

Calendar year-to-date through September 30, 2013, the US equity market was up 21.3%, international markets were up 10.2%, and the fixed income market generated a negative return of (1.9)%.

We expect volatility to remain heightened as a result of political uncertainty and the outlook for slower global economic growth in the coming years. As a result, the Investment Management Committee continues to meet regularly to monitor the investment results and portfolio structure of the System and to assess whether any actions need to be taken to minimize losses.

### **Professional Services**

The professional consultants who are contracted by the Board of Trustees to perform services that are essential to the effective and efficient operation of the System are listed on page 8. An independent audit was conducted by KPMG LLP, and a copy of KPMG LLP's report on the financial statements is found on pages 10 and 11. A certification letter from the actuary, Cheiron, is also included as part of this CAFR on pages 36 and 37. State Street Bank and Trust is the System's custodian.

## INTRODUCTORY SECTION

### Letter of Transmittal (concluded)

#### Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Employees' Retirement System for the City of Norfolk for its Comprehensive Annual Financial Report for the Fiscal Year ended June 30, 2012. This was the eighth year that the System has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report satisfies both GAAP and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current Comprehensive Annual Financial Report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

#### Acknowledgements

The compilation of this report reflects the combined effort of the System's staff under the leadership of the Board of Trustees. It is intended to provide complete and reliable information as a basis for making management decisions, as a means of determining compliance with legal provisions, and as a means of determining responsible stewardship of the funds of the system.

On behalf of the Board of Trustees, I would like to take this opportunity to express sincere gratitude to the staff, the advisors, and to the many people who have worked so diligently to assure the successful operation of the System.

Respectfully submitted,



Sheryl Potter-Griggs  
Acting Executive Director

## INTRODUCTORY SECTION

### The Board of Trustees

Stephanie Adler Calliott, CFP Senior Vice President, Community Relations Children's Hospital of the King's Daughters	Chair	Appointed January 9, 2007
Christopher R. Neikirk Assistant Vice-President - Finance Norfolk Southern Corporation	Member	Appointed January 9, 2007
Lawrence A. Bernert III, CFA Principal and Portfolio Manager Wilbanks, Smith and Thomas Asset Management, LLC	Member	Appointed October 30, 2007
Yvonne T. Allmond Senior Vice-President of Private Banking TowneBank	Member	Appointed October 30, 2007
Kenneth W. Crowder Owner/Agent State Farm Insurance Agency	Member	Appointed February 3, 2009
Nicholas E. Nelson (public safety) Fire Lieutenant/Paramedic	Member	Appointed August 28, 2007
Eric G. Tucker (general employee) Assistant Director of Utilities	Member	Appointed August 28, 2007
Marcus D. Jones City Manager	Ex-officio Trustee	
Alice M. Kelly, CPA Director of Finance	Ex-officio Trustee	

The members of the Board are appointed and serve pursuant to Chapter 37 of the Norfolk City Code, which provides for nine (9) members.

The Ex-officio trustees serve by virtue of their position with the City of Norfolk.

## INTRODUCTORY SECTION

### Consultants and Professional Services

#### **Legal Advisor**

Mary L. G. Nexsen  
Deputy City Attorney

#### **Medical Examiner**

Dr. David Sack and Dr. Anthony C. Cetrone  
NowCare

#### **Actuary**

CHEIRON

#### **Custodian**

State Street Bank and Trust

#### **Consultants**

Summit Strategies Group  
Jessica N. Portis, Senior Consultant

#### **Auditor**

KPMG LLP  
Norfolk, VA

### Investment Managers

#### **Domestic Equity**

State Street Global Advisors  
Boston, Massachusetts

#### **International**

State Street Global Advisors  
Boston, Massachusetts

#### **Fixed Income**

State Street Global Advisors  
Boston, Massachusetts

Pacific Investment Management Company  
Newport Beach, California

#### **Real Estate**

J.P. Morgan Chase Bank  
New York, NY

UBS Trumbull  
Harford, CT

#### **Master Limited Partnership**

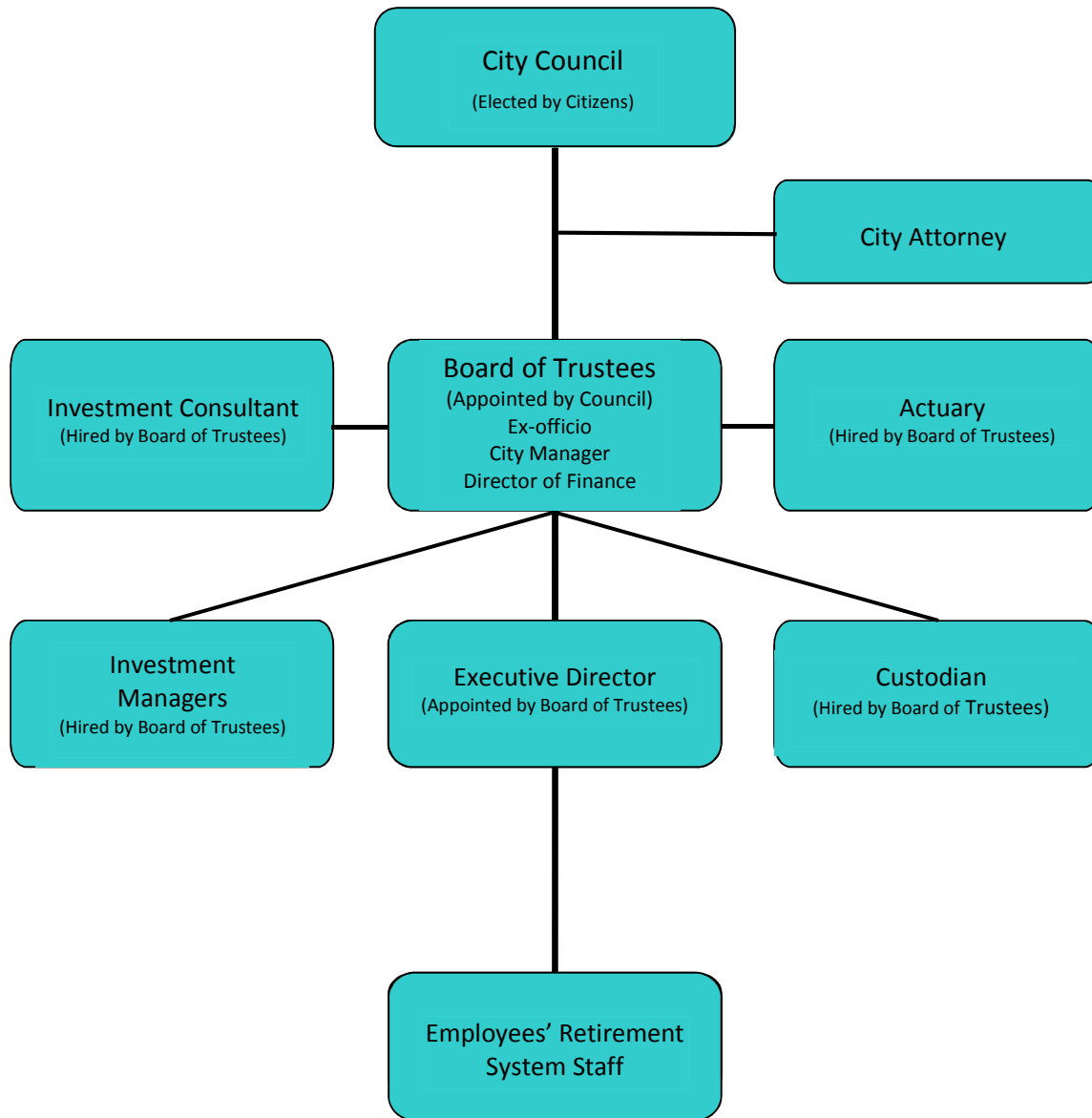
Harvest Fund Advisors LLC  
Wayne, PA

Tortoise Capital Advisors  
Wayne, PA

Investment Manager and Investment Assignments can be found on page 32.

## INTRODUCTORY SECTION

### ORGANIZATIONAL CHART



*(As of 2013)*

## FINANCIAL SECTION

## FINANCIAL SECTION



KPMG LLP  
Suite 1900  
440 Monticello Avenue  
Norfolk, VA 23510

### Independent Auditors' Report

The Board of Trustees  
Employees' Retirement System of the City of Norfolk:

#### Report on the Financial Statements

We have audited the accompanying financial statements of the Employees' Retirement System of the City of Norfolk (the System), a fiduciary fund of the City of Norfolk, Virginia, as of and for the year ended June 30, 2013, and the related notes to the financial statements, as listed in the table of contents.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the System's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net position of the System as of June 30, 2013, and the changes in plan net position for the year then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP is a Delaware limited liability partnership,  
the U.S. member firm of KPMG International Cooperative  
("KPMG International"), a Swiss entity.

## FINANCIAL SECTION



### *Other Matters*

#### *Required Supplementary Information*

U.S. generally accepted accounting principles require that management's discussion and analysis on pages 13 through 16, the schedule of funding progress on page 26, and the schedule of employer contributions on page 27 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Supplementary and Other Information*

Our audit was conducted for the purpose of forming an opinion on the System's basic financial statements. The schedule of administrative expenses, schedule of investment expenses, introductory section, investment section, actuarial section, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedule of administrative expenses and schedule of investment expenses are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of administrative expenses and schedule of investment expenses are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section, investment section, actuarial section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.



## FINANCIAL SECTION



### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2013 on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

**KPMG LLP**

Norfolk, VA  
December 13, 2013

## **FINANCIAL SECTION**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**

Our discussion and analysis of the financial performance of the Employees' Retirement System of the City of Norfolk (the System) provides an overview of financial activities for the fiscal years ended June 30, 2013 and 2012. Please read Management's Discussion and Analysis in conjunction with the basic financial statements and the related notes thereto, which follow this discussion.

### **FINANCIAL HIGHLIGHTS**

- System assets exceeded liabilities at the close of fiscal years 2013 and 2012 by \$954.7 million and \$885.5 million, respectively (reported as plan net position). Total plan net position are held in trust to meet future benefit obligations.
- The System's funding objective is to meet long-term benefit obligations through contributions and investment income. As of June 30, 2013 and 2012, the funded ratio was 82.3% and 80.7%, respectively.
- Total additions increased over the prior year \$98.6 million or about 217.6%. This increase was mainly due to an increase in net appreciation in fair value of the System's investments in the most recent period versus the prior period.
- Total deductions increased over the prior year from \$71.6 million to \$74.7 million or 4.41%. Most of this increase represented increased retirement benefits paid.

### **THE STATEMENT OF PLAN NET POSITION AND THE STATEMENT OF CHANGES IN PLAN NET POSITION**

This Comprehensive Annual Financial Report (CAFR) consists of two financial statements: The Statement of Plan Net Position and the Statement of Changes in Plan Net Position. These financial statements report information about the System as a whole and about its financial condition that should help answer the question: Is the System, as a whole, better or worse off as a result of this year's activities? These financial statements include all assets and liabilities that are due and payable using an economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, all additions and deductions are taken into account regardless of when cash is received or paid.

The Statement of Plan Net Position presents all of the System's assets and liabilities, with the difference reported as plan net position. Over time, increases and decreases in net position measure whether the System's assets available for benefits is improving or deteriorating. The Statement of Changes in Plan Net Position presents how the System's net position changed during the most recent fiscal year. These two financial statements should be reviewed along with the unaudited required supplementary information, Schedule of Funding Progress and Schedule of Employers' Contributions, to determine whether the System is becoming financially stronger or weaker and to understand changes over time in the funded status of the System.

## FINANCIAL SECTION

### MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

#### FINANCIAL ANALYSIS

#### Employees' Retirement System of the City of Norfolk Summary of Plan Net Position As of June 30, 2013 and 2012

	FY 2013	FY 2012	2013-2012 Total % Change
<b>ASSETS</b>			
Cash and cash equivalents	\$ 21,963,318	\$ 24,606,872	(10.7)%
Receivables	102,441,202	95,466,202	7.3%
Investments	925,523,365	863,923,831	7.1%
<b>Total assets</b>	<u>1,049,927,885</u>	<u>983,996,905</u>	6.7%
<b>LIABILITIES</b>			
Accounts payable and accrued expenses	541,418	631,499	(14.3)%
Due to brokers for securities purchased	94,692,800	97,866,206	(3.2)%
<b>Total liabilities</b>	<u>95,234,218</u>	<u>98,497,705</u>	(3.3)%
<b>PLAN NET POSITION</b>	<u>\$ 954,693,667</u>	<u>\$ 885,499,200</u>	7.8%

Total assets as of June 30, 2013 and 2012 were \$1,049,927,885 and \$983,996,905, respectively, and were comprised of cash and cash equivalents, receivables, and investments. Total assets increased \$65,930,980 or 6.7% for Fiscal Year 2013, primarily due to appreciation in fair value of investments.

Total liabilities that are due and payable as of June 30, 2013 and 2012 were \$95,234,218 and \$98,497,705, respectively, and were comprised of payables to brokers for investment purchases and administrative costs. For Fiscal 2013, total liabilities decreased \$3,263,487 or (3.3)% from the prior year primarily due to the timing of investment purchases.

System assets exceeded its due and payable liabilities at the close of fiscal year 2013 and 2012 by \$954,693,667 and \$885,499,200, respectively. In Fiscal Year 2013, plan net position available for pension benefits increased \$69,194,467 or 7.8% from the previous year primarily due to net appreciation in fair value of investments as a result of favorable market conditions.

## FINANCIAL SECTION

### MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

#### Employees' Retirement System of the City of Norfolk Summary of Changes in Plan Net Position For the Fiscal Years Ended June 30, 2013 and 2012

	FY 2013	FY 2012	2013-2012 Total % Change
<b>ADDITIONS</b>			
Investment income, net	\$ 100,593,973	\$ 3,252,793	2992.5%
Employer contributions	42,330,492	41,466,456	2.1%
Employee contributions	1,007,140	593,956	69.6%
<b>Total additions</b>	<u>143,931,605</u>	<u>45,313,205</u>	217.6%
<b>DEDUCTIONS</b>			
Benefit payments	74,190,481	71,021,815	4.5%
Refunds of contributions	6,037	24,879	(75.7)%
Administrative expenses	540,620	535,826	0.9%
<b>Total deductions</b>	<u>74,737,138</u>	<u>71,582,520</u>	4.4%
Net (decrease) increase	<u>69,194,467</u>	<u>(26,269,315)</u>	(363.4)%
Plan net position available for pension benefits			
<b>Beginning of year</b>	<u>885,499,200</u>	<u>911,768,515</u>	(2.9)%
<b>End of year</b>	<u>\$ 954,693,667</u>	<u>\$ 885,499,200</u>	7.8%

#### ADDITIONS TO PLAN NET POSITION

The reserves needed to finance retirement benefits are accumulated through the collection of employer and employee contributions and through earnings on investments. Contributions and net investment income for fiscal years 2013 and 2012 totaled \$143,931,605 and \$45,313,205, respectively.

Net investment income and contributions increased for FY 2013 by \$97,341,180 from that of the prior year, due primarily to a net appreciation in fair value of System's investments. The total portfolio returned 12.1% for fiscal year ended June 30, 2013 versus 0.65% for the prior fiscal year. Our target return is 7.0%

## **FINANCIAL SECTION**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS (concluded)**

#### **DEDUCTIONS FROM PLAN NET POSITION**

The deductions of the System include pension payments to members and beneficiaries, refunds of contributions to former members, and the cost of administering the System. Total deductions for FY 2013 were \$74,737,138 an increase of 4.4% over FY 2012 deductions.

The pension benefits payments increased by \$3,168,666 in FY 2013 or 4.5% from the previous year. The increase in pension benefit payments is a result of turnover in the retirement population. New retirees with higher benefits replaced older retirees. The total number of retirees added in fiscal year 2013 was 164 as compared to 322 for fiscal year 2012. Administrative expenses as of June 30, 2013 and 2012 were \$540,620 and \$535,826, respectively. This was an increase of \$4,794 or 0.89% from the previous year.

#### **RETIREMENT SYSTEM AS A WHOLE**

As a result of an increase in the equity markets, plan net position increased in Fiscal Year 2013 over Fiscal Year 2012. The System's funding ratio as determined by the System's actuary was 82.3% at June 30, 2013 and 80.7% at June 30, 2012.

The City's contributions are expected to significantly increase over the next several years based on the actuarial valuation report. The Board, with the assistance of its pension consultant and actuary, continues to utilize the concepts of prudent investment management, cost controls, and strategic planning.

#### **CONTACTING SYSTEM FINANCIAL MANAGEMENT**

The financial report is designed to provide citizens, taxpayers, plan participants, and the marketplace's credit analysis with an overview of the System's finances and the prudent exercise of the Board's oversight. Any questions regarding this report or requests for additional financial information should be directed to the Employees' Retirement System of the City of Norfolk, 810 Union Street, Suite 309, Norfolk, Virginia 23510.

## FINANCIAL SECTION

### Employees' Retirement System of the City of Norfolk

(A Pension Trust Fund of Norfolk, Virginia)

#### Statement of Plan Net Position

June 30, 2013

---

**Assets:**

Cash and cash equivalents \$ 21,963,318

Receivables:

Employer contribution 42,330,492

Accrued investment income 667,737

Accounts receivable 198

Due from brokers for securities sold 59,442,775

**Total receivables** 102,441,202

Investments:

United States Treasury securities 55,013,497

Fixed income securities 113,792,915

Equity securities 47,929,052

Other 199,476

Commingled funds:

Equity 519,603,045

Fixed income 143,072,559

Real estate 45,912,821

Total commingled funds 708,588,425

**Total investments** 925,523,365

**Total assets** 1,049,927,885

**Liabilities:**

Accounts payable and accrued expenses 541,418

Due to brokers for securities purchased 94,692,800

**Total liabilities** 95,234,218

**Plan net position available for pension benefits** \$ 954,693,667

See accompanying notes to financial statements.

## FINANCIAL SECTION

### Employees' Retirement System of the City of Norfolk

(A Pension Trust Fund of Norfolk, Virginia)

Statement of Changes in Plan Net Position

Year Ended June 30, 2013

---

#### Additions:

Investment income:

Net appreciation in fair value of investments	\$ 95,957,473
Interest	4,724,808
Dividends	1,506,136
Other	<u>74,948</u>

102,263,365

Less investment expenses (1,669,392)

**Net investment income** 100,593,973

Employer contributions 42,330,492

Employee contributions 1,007,140

**Total net additions** 143,931,605

#### Deductions:

Benefits paid directly to participants 70,226,545

Beneficiary payments 3,963,936

Refunds of contributions 6,037

Administrative expenses 540,620

**Total deductions** 74,737,138

**Net increase** 69,194,467

#### Plan net position available for pension benefits:

Beginning of year 885,499,200

End of year \$ 954,693,667

See accompanying notes to financial statements.

## FINANCIAL SECTION

### Employees' Retirement System of the City of Norfolk

(A Pension Trust Fund of Norfolk, Virginia)

Notes to Financial Statements

For the Year Ended June 30, 2013

#### Note 1. Significant Accounting Policies

**Reporting entity:** The Employees' Retirement System (System) of the City of Norfolk is the administrator of a single-employer contributory defined benefit plan that covers substantially all employees of the City of Norfolk, excluding School Board and Constitutional Officer employees covered by the Virginia Retirement System, as authorized by Section 143(a) of the City Charter. The System was established and placed under the management of the Board of Trustees for the Employees' Retirement System for the purpose of providing retirement allowances and death benefits as authorized by the provisions of Chapter 37 of the Norfolk City Code. All employees hired on or after October 5, 2010 contribute 5% of compensation to the benefit plan with the exception of Norfolk Community Services Board employees who became employees effective July 1, 2012. Effective December 13, 2011, all employees hired on or after December 2011 are required to meet the vesting requirement of five (5) years in order to be eligible to receive benefits under the Plan with the exception of Norfolk Community Services Board employees. The aforementioned had their prior service with the Norfolk Community Services Board counted towards the five (5) year vesting requirement without this service being deemed creditable service in the System.

The System has a nine-member Board of Trustees appointed by the City Council of the City of Norfolk, including the City Manager and Director of Finance as ex-officio members. The System meets the definition of a Fiduciary Fund of the City of Norfolk under applicable accounting standards and as a result, the System's financial statements are incorporated into the Comprehensive Annual Financial Report of the City of Norfolk. These financial statements are those of the System and not of the City of Norfolk, Virginia as a whole. The City of Norfolk makes contributions, which are combined with investment earnings of the System, to provide funding for pension benefits and administrative costs.

**Basis of accounting:** The financial statements of the System are prepared using the accrual basis of accounting. Employer contributions are recognized when earned. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

The System has applied the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* ("GASB 25") in the preparation of these financial statements. GASB 25 establishes financial reporting standards for defined benefit pension plans and for the notes to the financial statements of defined contribution plans of state and local governmental entities and requires two basic financial statements, a statement of plan net position and a statement of changes in plan net position, that provide current financial information about plan assets, liabilities and financial activities. Actuarially determined information, from a long-term perspective, about the funded status of the plan and related funding progress is presented in two required schedules, which are unaudited, a schedule of funding progress and a schedule of employer contributions. GASB 25 also establishes certain parameters for the measurement of all actuarially determined information included in financial reports of defined benefit pension plans.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* ("GASB 63"), provides financial reporting guidance for deferred outflows of resources and deferred inflows or resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. The Plan retroactively implemented the provisions of GASB 63 in fiscal year 2013 by replacing the previous term "plan net assets" with the new term "plan net position" in the accompanying financial statements.

GASB Statement No. 67, *Financial Reporting for Pension Plans* ("GASB 67"), was issued to improve the financial reporting by state and local governmental pension plans. GASB 67 enhances note disclosures and required supplementary information for both defined benefit and defined contribution pension plans. It also requires the presentation of new



## FINANCIAL SECTION

information about annual money-weighted rates of return in the notes to the financial statements and in 10-year required supplementary information. In addition, the standard requires the use of a prescriptive method to calculate the discount rate which is expected to increase the liability and decrease the funded status of most plans. The provisions of GASB 67 are effective for financial statements for fiscal years beginning after June 15, 2013. The System will adopt this pronouncement in the fiscal year ended June 30, 2014.

**Cash and cash equivalents:** Cash equivalents consist of repurchase agreements, with maturities of three months or less, and short-term investments. Short-term investments are recorded at cost which approximates fair value.

**Investment valuation method:** Investments are reported at fair value. The United States Treasury securities and fixed income securities traded on a national or international exchange are valued at the last reported sales price. Such securities not traded on a national or international exchange are valued based on equivalent values of comparable securities with similar yield and risk. Derivatives are valued by an external pricing source when available. In the absence of an external pricing source, fair value is determined using a proprietary analytics model. Equity securities are valued based upon quotations from national security exchanges. The real estate commingled funds are valued based on semiannual or annual appraised values of the properties held by the funds. The remaining commingled funds are reported at net asset value (NAV), based on the quoted market prices of the underlying securities in the fund.

Net appreciation or depreciation in fair value of investments is reflected in the statement of changes in net position and includes realized gains and losses on investments purchased and sold and the change in depreciation from one period to the next. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Acquisition costs are included in the cost of investments purchased, and sales are recorded net of selling expenses. Purchases and sales of securities traded but not yet settled at year end are recorded as due to brokers for securities purchased and due from brokers for securities sold, respectively.

**Estimates:** The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows, deferred inflows, and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of changes in plan net position during the reporting period. Actual results could differ from those estimates.

### Note 2. Description of the Plan

The System is the administrator of a single-employer, contributory, defined benefit plan that covers substantially all employees of the City of Norfolk, Virginia, excluding School Board and Constitutional Officer employees who are covered by the Virginia Retirement System. Although the System presents separate financial statements, it is also included in the City of Norfolk's Comprehensive Annual Financial Report as a pension trust fund. The types of employees covered and current membership as of June 30, 2013 consists of the following:

<b>Retirees and beneficiaries receiving benefits:</b>	
General	2,443
Public safety	1,162
<b>Terminated plan members entitled to but not yet receiving benefits:</b>	
General	788
Public safety	209
<b>Active plan members:</b>	
Fully vested:	
General	1,978
Public safety	894
Nonvested:	
General	820
Public safety	<u>376</u>
Total	<u><b>8,670</b></u>

## **FINANCIAL SECTION**

### **Notes to Financial Statements**

#### **Note 2. Description of the Plan, concluded:**

The System provides retirement benefits as well as death and disability benefits. All benefits vest after five years of creditable service. Employee eligibility requirements are as follows:

Retirement (for employees who became members prior to July 1, 1980): Normal retirement is the earlier of age 60 or after completion of 30 years of credited service for general employees, and the earlier of age 55 or after the completion of 25 years of credited service for public safety employees. The normal service retirement benefit per annum is equal to 2.0% of average final compensation (average of the three highest years of compensation) times years of creditable service, with service limited to 35 years. Public safety employees accrue benefits at 2.5% of average final compensation times years of creditable service, not to exceed 65% of average final compensation. Mandatory retirement is age 65 for public safety employees.

Retirement (for employees who became members on or after July 1, 1980): Normal retirement is the earlier of age 60 or after completion of 30 years of credited service for general employees, and age 55 or after the completion of 25 years of credited service for public safety employees. The normal service retirement benefit per annum for general employees is equal to 1.75% of average final compensation times years of creditable service, with service limited to 35 years. Public safety employees accrue benefits at 2.5% of average final compensation times years of creditable service, not to exceed 65% of average final compensation. Mandatory retirement is age 65 for public safety employees.

Ad hoc cost-of-living adjustments ("COLAs") are provided at the discretion of the City Council. Retirees and beneficiaries as of June 30, 2011 were granted a permanent 2.0% COLA effective July 2012. Participants should refer to the Plan document for a complete description of these benefits.

The Employees' Retirement System is established by Section 37 of the Code of the City of Norfolk, Virginia, 1979, as amended 1997. The benefit provisions of the System are also determined by this Code section.

#### **Note 3. Actuarial Contributions Required and Contributions Made**

Significant assumptions used to calculate contribution requirements are the same as those used to calculate the actuarial accrued liability. Normal cost is funded on a current basis. Periodic contributions for normal cost are based on the level percentage-of-payroll method. The funding strategy for normal cost should provide sufficient resources to pay employee pension benefits on a timely basis.

Section 37 of the Code of the City of Norfolk, Virginia 1979, as amended 1997 establishes the authority under which the employer's obligation to contribute to the plan is established or may be amended. Contribution requirements are actuarially determined at the end of each fiscal year and paid by the City of Norfolk in the ensuing year. The contribution requirement of \$42,330,492 for the year ended June 30, 2013 was based on 23.8% of covered payroll for general employees and for public safety employees.

Voluntary contributions were discontinued in 1979 and have been accumulated thereafter with interest at a rate of 7%. Such contributions are refundable to members who terminate before becoming eligible for retirement benefits. At retirement, members' contributions plus accumulated interest are refunded. Such amounts totaled \$62,504 at June 30, 2013.

## FINANCIAL SECTION

### Notes to Financial Statements

#### **Note 3. Actuarial Contributions Required and Contributions Made, concluded:**

Mandatory contributions are collected from employees hired on or after October 5, 2010 on a salary reduction basis in the amount of 5% of earnable compensation and accumulate thereafter with interest at a rate of 4%. Members who vest are not eligible to receive any refund of the mandatory member contribution. Upon vesting, the contribution becomes an asset of the System to be used to pay benefits under the System. Such contributions are refundable to members who terminate before becoming eligible for retirement benefits. The total amount refundable as of June 30, 2013 was \$1,740,028. Mandatory contributions totaled \$1,007,140 for the year ended June 30, 2013.

The financing objective of the Employees' Retirement System is to:

- a) fully fund the normal cost contribution for the current year determined under the funding method, and
- b) liquidate the unfunded accrued liability based on level dollar contributions payable over an open amortization period of 20 years.

As of June 30, 2013, the actuarial value of assets was \$954,499,184. The actuarial accrued liability was \$1,159,713,871. The funding shortage of \$205,214,687 represents 111.5% of the covered payroll of \$184,061,572. The System's funded ratio is 82.3%. The unaudited schedule of funding progress, following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing relative to the actuarial accrued liability for benefits over time.

For the June 30, 2013 actuarial valuation, the actuarial assumptions included the following:

Actuarial cost method	Entry age normal cost method
Amortization method	Level dollar open, except for Public Safety Retirement Enhancement Program which is amortized over a closed 20-year period commencing July 1, 2005 and the Voluntary Retirement Incentive Program which is amortized over a closed 20-year period commencing July 1, 2012.
Asset valuation method	The actuarial value method of assets is determined by first calculating the expected actuarial value of assets based on last year's valuation interest rate, last year's actuarial value of assets, and the net cash flow (contributions less benefit payments) of the System over the year prior to the valuation. One-third of the market value of assets less the expected actuarial value of assets is then added to the expected actuarial value of assets to determine the valuation assets.
Assumed inflation rate	3.0%
Investment rate of return	7.0% per annum, compounded annually
Projected salary increases**	Average salary increases of 5.64% for general employees and 6.68% for public safety employees. Based on rates that vary by year-of-service and are compounded annually.
Cost-of-living allowance	None
Separation from active service	Assumed rates of separation from service vary depending on the employees' years of service and whether the employee is a general employee or public safety employee. Mortality is based on the RP-2000 mortality tables for healthy and disabled members.
Marital status	65% of the general employees and 75% of the public safety employees are assumed to be married, with the males three years older than females.
**Includes inflation rate at 3.0%	

The actuarial assumptions above are based on the presumption that the System will continue indefinitely. Were the System to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial accrued liability.

## FINANCIAL SECTION

### Notes to Financial Statements

#### Note 4. Investments and Deposits

**Deposits:** The System's entire bank balance was covered by federal depository insurance or commercial insurance or collateralized in accordance with the Virginia Security for Public Deposits Act. Under the Virginia Security for Public Deposits Act, banks holding public deposits in excess of the amounts insured by the Federal Deposit Insurance Corporation must pledge collateral in the amount of 50% of excess deposits to a collateral pool in the name of the State Treasury Board. The State Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the Virginia Security for Public Deposits Act and for notifying local governments of compliance by banks. The System's policy is to maintain all accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Sec 2.2-4400 et. seq. of the Code of Virginia. Cash equivalents amounting to \$20,289,419 consisted of \$6,389,419 in short-term investments and \$13,900,000 in Barclay Capital and Citigroup repurchase agreements.

**Investments:** The Board of Trustees of the System has full power to invest and reinvest the trust funds in accordance with Section 51.1-124.30 of the Code of Virginia (1950), as amended. This section requires the board to discharge its duties solely in the interest of the beneficiaries and to invest the assets with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims. The Board must also diversify such instruments so as to minimize the risk of large losses unless under the circumstances, it is clearly prudent not to do so.

**Custodial credit risk:** For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Equity and fixed income investments are not insured and are registered in the name of the System and held by State Street Bank as custodian. The System's policy is that all securities purchased by or for the System be properly and clearly labeled as an asset of the System and held in safekeeping by a third party custodial bank or institution in compliance with Section 2.2-4515 of the Code of Virginia.

**Interest rate risk:** The System has outlined a policy on duration to help manage its interest rate risk. The Investment Policy Statement outlines "duration" as the weighted average effective duration of each Account's fixed income portfolio, including cash equivalents. The policy states that the duration of the fixed income portfolio shall be within +/- two years relative to the Barclays Capital Aggregate Bond Index. The System does not have a policy regarding interest rate risk.

#### Segmented Time Distribution:

June 30, 2013 Investment Type	Fair Value	Investment Maturity				
		Less 1 yr	1-3 yrs	3-6 yrs	6-10 yrs	10 yrs +
Corporate Debt	\$ 9,124,814	\$4,073,332	\$ 2,194,914	\$ 1,193,100	\$ 819,000	\$ 844,469
Futures/Options/Swaps	422,075	(439,071)	86,919	(67,025)	(12,471)	853,723
U.S. Government securities	55,013,497	N/A	21,194,346	14,142,974	19,676,177	N/A
Municipals	8,168,595	285,165	N/A	N/A	650,340	7,233,090
Asset backed securities	6,643,387	N/A	377,526	N/A	1,116,717	5,149,145
Mortgage backed securities	88,986,622	629	N/A	3,799,526	9,078,844	76,107,624
Foreign government securities	646,898	646,898	N/A	N/A	N/A	N/A
Common stock	5,839,854	N/A	N/A	N/A	N/A	N/A
Master limited partnerships	42,089,198	N/A	N/A	N/A	N/A	N/A
Domestic equity funds	519,603,045	N/A	N/A	N/A	N/A	N/A
Fixed income funds	143,072,559	N/A	N/A	N/A	N/A	N/A
Real estate funds	45,912,821	N/A	N/A	N/A	N/A	N/A
Totals	<u>\$925,523,365</u>	<u>\$4,566,952</u>	<u>\$23,853,705</u>	<u>\$19,068,576</u>	<u>\$31,328,606</u>	<u>\$90,188,050</u>

**Notes:** Corporate debt includes all Corporate Floating Rate Notes; Floating Rate Mortgages are included in the Non-Agency Mortgage Section. Fixed Income Funds include PIMCO sector funds, and SSgA fixed income funds.

## FINANCIAL SECTION

### Notes to Financial Statements

#### Note 4. Investments and Deposits, continued:

**Foreign currency risk:** Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The System does not have a formal policy; however, the System manages its exposure to fair value loss by requiring its international securities investment managers to maintain diversified portfolios by issuer to limit foreign currency and security risk. The System's exposure to foreign currency risk is presented on the following table.

June 30, 2013

Currency	Fixed Income
Brazilian Real	\$ 732,669
Canadian Dollar	(17,039)
Japanese Yen	(153,349)
Mexican Peso	1,329,027
Totals	<u>\$ 1,891,308</u>

**Credit risk:** Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The System's formal policy governing credit risk is that securities rated below investment grade by two of the three primary rating agencies, Moody's, Fitch Ratings, and Standard and Poor's (S&P's) are not permitted without the written permission of the Board. PIMCO has been given the authority by the Board to invest 20% of their portfolio in below investment grade securities.

The System invests in certain derivatives including futures, swaps and options. Investments in derivatives with a fair value of \$422,075 were held at June 30, 2013 and are included in reported investments. For accounting purposes, all derivative instruments are considered to be investments and not hedges. The System primarily enters into derivative transactions in order to manage risks from exposure to foreign currency rate fluctuation and to shorten the duration of the fixed income investment portfolio.

The System's rated debt investments as of June 30, 2013 were rated by S&P's and/or an equivalent national rating organization and the ratings are presented below using the S&P's credit quality rating scale.

June 30, 2013

Fair Quality Rating	Corporate Bonds	Mortgages Backed Securities	Foreign Government	Asset Backed Securities	U.S. Government Securities	Municipals	Common Stock	Master Limited Partnerships	Futures/Options/ Swaps	Fixed Income/Equity/ Real Estate Funds
AAA	\$ -	\$ 365,739	\$ -	\$ 101,840	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
AA+	-	21,321,901	-	1,116,717	-	-	-	-	-	-
AA	-	-	-	-	-	922,734	-	-	-	-
AA-	-	3,278,528	-	-	-	620,263	-	-	-	-
A+	-	2,154,310	-	-	-	-	-	-	-	-
A	2,857,420	-	-	-	-	1,313,971	-	-	-	-
A-	1,574,490	-	-	-	-	-	-	-	-	-
BBB+	-	-	-	-	-	445,068	-	-	-	-
BBB	204,504	-	-	-	-	-	-	-	-	-
BBB-	-	-	-	-	-	-	-	-	-	-
BB+	-	-	-	-	-	-	-	-	-	-
BB	-	-	-	-	-	-	-	-	-	-
BB-	-	-	-	-	-	-	-	-	-	-
B+ and below	1,761,425	-	-	38,350	-	-	-	-	-	-
NR	2,726,975	61,866,144	646,898	5,386,480	55,013,497	4,866,559	5,839,854	42,089,198	422,075	708,588,425
Totals	<u>\$9,124,814</u>	<u>\$88,986,622</u>	<u>\$ 646,898</u>	<u>\$6,643,387</u>	<u>\$55,013,497</u>	<u>\$8,168,595</u>	<u>\$5,839,854</u>	<u>\$42,089,198</u>	<u>\$ 422,075</u>	<u>\$708,588,425</u>

## FINANCIAL SECTION

### Notes to Financial Statements

#### Note 4: Investments and Deposits, concluded:

**Concentration of credit risk:** Concentration of credit risk is the risk of loss attributed to the magnitude of a system's investment in a single issuer. Mutual funds are excluded from this disclosure requirement. The System's formal policy governing concentration of credit risk is that securities rated below investment grade by two of the three primary rating agencies, Moody's, Fitch Ratings and S&P's are not permitted. No more than 20% of each account's fixed income portfolio, including cash equivalents, shall be invested in bonds rated below Baa (1, 2, and 3) or BBB (+ or -). Upon written request from the manager, the board will consider allowing more than 20% in these ratings and the purchase of bonds rated below Baa3 or BBB-.

The following table presents the fair value of investments that represent 5% or more of the System's net assets at June 30, 2013:

Investment	Amounts
SSgA Passive Bond Market Index Non-Lending Fund	\$ 80,863,342
PIMCO Total Return Fund	\$170,849,967
SSgA MSCI All Country World Index Ex-U.S. Non-Lending Fund	\$195,196,070
SSgA Russell 3000 Index Fund	\$324,406,975

#### Note 5. Transactions with City of Norfolk

The System reimburses the City for all administrative costs related to the System's operations. The costs reimbursed for the year ended June 30, 2013 were \$540,620.

#### Note 6. Income Tax Status

The Internal Revenue Service has ruled in a determination letter dated October 18, 2012 that the System qualifies under Section 401-1(b)(3) of the Internal Revenue Code and is, therefore, not subject to tax under present income tax laws. Although the Plan has been amended since receiving the determination letter from the Internal Revenue Service, the System management believes that the Plan is designed and is currently being operated in compliance with the applicable requirements of the Internal Revenue Code.

## FINANCIAL SECTION

### Required Supplementary Information

Historical trend information about the System is presented herewith as required supplementary information. An actuarial valuation is performed annually at fiscal year-end. Information from the ten most recent valuations is presented below. This information is intended to help users assess the System's funding status, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other public employee retirement systems.

#### Schedule of Funding Progress Dollar Amounts in Millions (Unaudited)

	(a)	(b)	(a-b)	(a/b)		((a-b)/c) Funding Excess (Shortage) Of Covered Payroll
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Funding Excess (Shortage)	Funded Ratio	Covered Payroll	
June 30, 2004	\$ 816.1	\$ 845.7	\$ (29.6)	96.5%	\$157.7	(18.8)%
June 30, 2005	854.1	883.9	(29.8)	96.6%	160.2	(18.6)%
June 30, 2006	881.0	939.1	(58.1)	93.8%	159.3	(36.5)%
June 30, 2007*	925.8	972.2	(46.4)	95.2%	168.1	(27.6)%
June 30, 2008	937.8	1,009.1	(71.3)	92.9%	175.4	(40.6)%
June 30, 2009	885.6	1,029.6	(144.0)	86.0%	179.6	(80.2)%
June 30, 2010	817.7	1,046.8	(229.1)	78.1%	175.2	(130.8)%
June 30, 2011	832.0	1,064.0	(232.0)	78.2%	171.0	(135.7)%
June 30, 2012**	923.2	1,144.4	(221.2)	80.7%	167.6	(132.0)%
<b>June 30, 2013</b>	<b>954.5</b>	<b>1,159.7</b>	<b>(205.2)</b>	<b>82.3%</b>	<b>184.1</b>	<b>(111.5)%</b>

\* The actuarial cost method was changed June 30, 2007 from the Projected Unit Credit to the Entry Age Normal. Actuarial assumptions were also changed as a result of an experience study.

\*\*The actuarial asset valuation method was changed June 30, 2012 to a new smoothing method. The prior actuarial asset valuation method reflected expected income (based on the valuation interest rate) and spread over three years recognition of any gains (losses) due to investment return in excess of (or less than) the expected return. The new method is determined by first calculating the expected actuarial value of assets based on last year's valuation interest rate, last year's actuarial value of assets, and the net cash flow of the System over the year prior to the valuation. One-third of the market value of assets less the expected actuarial value of assets is then added to the expected actuarial value of assets to determine the valuation of assets. The actuarial value of assets increased and the funding shortage decreased by \$54.6 million in 2012, as a result of this change.

See accompanying independent auditors' report.

## FINANCIAL SECTION

### Required Supplementary Information

#### Schedule of Employer Contributions (Unaudited)

<b>Fiscal Year Ended June 30</b>	<b>Annual Required Contribution</b>	<b>Percentage Accrued</b>
2004	\$23,469,744	100%
2005	23,652,756	100
2006	25,728,228	100
2007	25,135,944	100
2008	25,667,556	100
2009	28,278,984	100
2010	35,515,472	100
2011	42,828,229	100
2012	41,466,456	100
<b>2013</b>	<b>42,330,492</b>	<b>100</b>

See accompanying independent auditors' report.



## FINANCIAL SECTION

### Employees' Retirement System of the City of Norfolk

(A Pension Trust Fund of Norfolk, Virginia)

Schedule of Administrative Expenses

Year Ended June 30, 2013

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#### Personal services:

Staff salaries	\$ 168,212
Benefits	<u>90,625</u>
Total personal services	<u>258,837</u>

#### Professional services:

Actuarial fees	93,385
Audit fees	25,775
Medical examinations	<u>1,925</u>
Total professional services	<u>121,085</u>

#### Communication:

Travel and training	3,648
Postage and shipping	<u>18,842</u>
Total communication	<u>22,490</u>

#### Miscellaneous:

Supplies and equipment	4,800
Other	<u>133,408</u>
Total miscellaneous	<u>138,208</u>
Total administrative expenses	<u><u>\$ 540,620</u></u>

See accompanying independent auditors' report.

**FINANCIAL SECTION**

**Employees' Retirement System of the City of Norfolk**

(A Pension Trust Fund of Norfolk, Virginia)

Schedule of Investment Expenses

Year Ended June 30, 2013

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Investment manager fees	\$ 1,383,577	
<b>Total investment manager fees</b>		<b>\$ 1,383,577</b>
Custody and investment consultant fees:		
Investment consultant fees	\$ 185,826	
Custody fees	<u>99,989</u>	
<b>Total custody and investment consultant fees</b>		<b><u>285,815</u></b>
<b>Total investment expenses</b>		<b><u>\$ 1,669,392</u></b>

See accompanying independent auditors' report.

# Investment Section (Unaudited)

## **Investment Performance, Policy, Statistics, and Activity**

*This section was prepared by Summit Strategies Group, investment consultant to the System, and a Securities and Exchange Commission registered investment adviser under the Investment Advisers Act of 1940.*

In the investment of public funds, adequate funding of employee retirement benefits at a reasonable and affordable cost is a paramount concern. An appropriate balance must be struck between risks taken and return sought to ensure the long-term health of the System. The System has adopted an investment policy that works to control the extent of the downside risk to which assets are exposed while maximizing the potential for long-term increase in the value of the assets.

### **Investment Objectives**

The Board of Trustees for the Employees' Retirement System has adopted investment policies and guidelines, which outline the System's investment goals and objectives. The Statement of Investment Policy contains a statement of investment goals and objectives, general investment principles, and guidelines. The general investment goals of the System are broad in nature. The primary objectives are to efficiently allocate and manage the assets dedicated to the payment of Plan benefits and administrative expenses. The following goals, consistent with the above-described purpose, are adopted:

- The overall goal of the System's investment portfolio is to provide a retirement benefit for the employees of the City of Norfolk, Virginia. This will be accomplished through a carefully planned and executed long-term investment program.
- The total portfolio over the long term will be expected to earn a return that equals or exceeds:
  1. The rate of inflation, as measured by the Consumer Price Index, plus 2.5% per year;
  2. The return of a target policy index ("Target Policy");
  3. For the aggregate domestic equity, international equity, fixed income, real estate, and MLP components of the fund, the return of the Russell 3000, MSCI ACWI ex US, the Barclays Capital Aggregate Bond, NCREIF ODCE, and Alerian MLP Total Return indices, respectively; and
  4. The actuarially assumed investment rate of return.

For purposes of performance measurement, rate of return shall mean total rate of return, that is, investment income plus realized and unrealized capital gains and losses. It shall be calculated on a time-weighted basis by linking monthly rates of return.

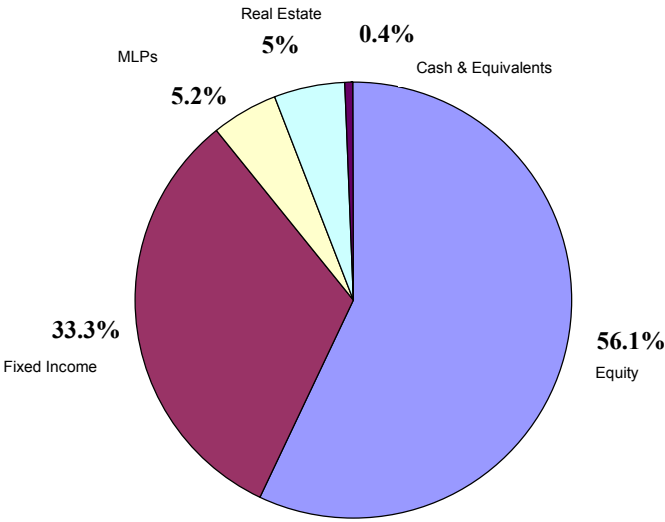
### **Asset Allocation**

The System adopts and implements an asset allocation policy that is predicated on a number of factors, including:

- Historical and expected long-term capital market risk and return behavior;
- Projected assets, liabilities, benefit payments, and contributions provided by System's actuary;
- An assessment of future economic conditions, including inflation and interest rate levels; and
- The specific investment objectives set forth in the Statement of Investment Policy.

The System will be diversified both by asset class (e.g., common stocks, bonds, cash) and within asset classes (e.g., within common stocks by economic sector, industry, quality, and market capitalization). The purpose of diversification is to provide reasonable assurance that no single security or class of securities will have a disproportionate impact on the total System.

**Asset Allocation by Asset Class as of June 30, 2013**



Total Equity	\$ 519,603,045
Fixed Income	293,607,672
Real Estate	45,912,821
MLPs	47,925,257
Cash and Equivalents (Excludes manager cash)	<u>4,058,505</u>
Total	<u><u>\$ 911,107,300</u></u>

## Asset Allocation as of June 30, 2013 (concluded)

<b>Total net assets market value</b>	<b>\$911,107,300</b>
Adjustments to Reconcile Statement of Plan Asset Investments Total:	
Total Cash and Cash Equivalents	(19,984,772)
Receivable for Investments Sold	(59,442,775)
Interest Receivable	(666,492)
Tax Refund Receivable	(1,225)
Interest Payable – Short Positions	6,527
Payable for Investments Purchased	94,692,800
Unrealized Appreciation (Depreciation):	
on Foreign Cash Positions	4,060
on Receivables	(133)
on Forward Contracts	<u>(191,925)</u>
Total Investments Reconciled to the Statement of Plan	
Net Position (See page 17)	<u><u>\$925,523,365</u></u>

## Investment Managers and Investment Assignments as of June 30, 2013

	<b>Market Value</b>	<b>% of Portfolio</b>
SSgA Russell 3000	\$ 324,406,975	35.6%
SSgA MSCI ACWI-ex US Index	195,196,070	21.4%
PIMCO Total Return Funds	170,849,967	18.8%
SSgA Bond Market Index	80,863,342	8.9%
SSgA US TIPS Index	41,894,363	4.6%
JP Morgan Asset Mgm Strat Prop Fund	25,233,404	2.8%
UBS Trumbull Property Fund	20,679,417	2.3%
Harvest MLP	23,595,579	2.6%
Tortoise Capital	24,329,678	2.7%
Cash Holding Account	4,058,505	0.4%
	<u><u>\$ 911,107,300</u></u>	<u><u>100.0%</u></u>

\* See reconciliation of Statement of Plan Net Position above.

## Asset Allocation Comparison as of June 30, 2013

	<b>Equity Commitment</b>	<b>Fixed Income Commitment</b>	<b>Total Other*</b>	<b>Percentage Total</b>
Total Fund	57.0%	32.1%	10.9%	100%
Median All Public Plans	58.6%	36.2%	16.6%	100%

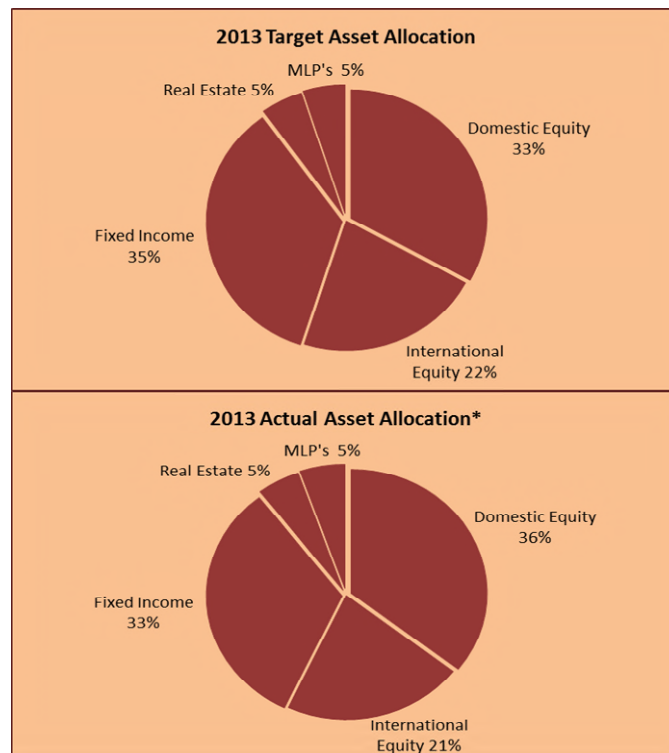
\* Includes cash and alternative asset classes such as real estate, private equity, and hedge funds.

## Target Asset Allocation

The target asset allocation for the investment portfolio is determined by the Board of Trustees to facilitate the achievement of the investment program's long-term investment objectives within the established risk parameters. Due to the fact that the allocation of funds between asset classes may be the single most important determinant of the investment performance over the long run, the System's assets shall be divided into the following asset classes:

Asset Class	Minimum Percentage	Maximum Percentage	Target Percentage
<b>Equities</b>	<b>50%</b>	<b>60%</b>	<b>55%</b>
US Equity	28%	38%	33%
International Equity	17%	27%	22%
<b>Fixed Income</b>	<b>30%</b>	<b>40%</b>	<b>35%</b>
<b>Real Estate</b>	<b>0%</b>	<b>10%</b>	<b>5%</b>
<b>MLP's</b>	<b>0%</b>	<b>10%</b>	<b>5%</b>

Formal asset allocation studies will be conducted at least every five years, with annual evaluations of the validity of the adopted asset allocation based on updated return projections. Any change in capital market assumptions or liabilities will require consideration of revision to the asset allocation policy.



\* Fixed income includes cash and cash equivalents.

## Investment Performance Summary

For the Periods Ended June 30, 2013

Account	1 Year	2 Years	3 Years	5 Years
<b>Equity</b>				
SSgA Russell 3000	21.46%	12.33%	18.66%	N/A
<i>Russell 3000</i>	21.46%	17.24%	18.63%	
<b>Total Domestic Equity</b>	<b>21.46%</b>	<b>12.33%</b>	<b>18.66%</b>	<b>7.01%</b>
<i>Domestic Equity Policy Index*</i>	21.46%	12.31%	18.63%	7.25%
SSgA MSCI ACWI-ex US Index	13.81%	-1.30%	8.17%	N/A
<i>MSCI AC World ex USA (Net)</i>	13.63%	-1.47%	7.99%	
<b>Total International Equity</b>	<b>13.81%</b>	<b>-1.30%</b>	<b>8.17%</b>	<b>-0.42%</b>
<i>International Equity Policy**</i>	13.63%	-1.47%	7.99%	-0.65%
<b>Total Equity</b>	<b>18.43%</b>	<b>6.89%</b>	<b>14.51%</b>	<b>4.00%</b>
<i>Total Equity Policy Index***</i>	18.37%	6.69%	14.36%	4.11%
<b>Fixed Income</b>				
PIMCO Total Return	1.37%	3.55%	4.97%	7.04%
<i>Barclays Capital Aggregate</i>	-0.69%	3.31%	3.51%	5.19%
SSgA Bond Market Index	-0.60%	3.34%	3.51%	N/A
<i>Barclays Capital Aggregate</i>	-0.69%	3.31%	3.51%	
SSgA US TIPS Index	-4.81%	3.08%	4.58%	N/A
<i>Barclays Capital US Treasury: US TIPS</i>	-4.78%	3.11%	4.63%	
<b>Total Fixed Income</b>	<b>-0.15%</b>	<b>3.33%</b>	<b>4.51%</b>	<b>5.17%</b>
<i>Barclays Capital Aggregate</i>	-0.69%	3.31%	3.51%	5.19%
<b>Real Estate</b>				
JP Morgan Asset Management Strategic Property Fund	13.26%	N/A	N/A	N/A
<i>NCREIF Fund Index – ODCE</i>	12.02%			
UBS Trumbull Property Fund	8.54%	N/A	N/A	N/A
<i>NCREIF Fund Index – ODCE</i>	12.02%			
<b>Total Real Estate</b>	<b>9.52%</b>	<b>10.98</b>	<b>N/A</b>	<b>N/A</b>
<i>NCREIF Fund Index – ODCE</i>	12.02%	12.22%		
<b>MLP's</b>				
Harvest MLP	N/A	N/A	N/A	N/A
<i>Alerian MLP</i>				
Tortoise Capital	N/A	N/A	N/A	N/A
<i>Alerian MLP</i>				
Total MLP	N/A	N/A	N/A	N/A
<i>Alerian MLP</i>				
<b>Total Fund Composite</b>	<b>12.09%</b>	<b>6.15%</b>	<b>10.93%</b>	<b>5.44%</b>
<i>Total Fund Policy Index****</i>	10.43%	5.67%	10.24%	5.04%

\* Domestic Equity Policy Index as of June 30, 2013 = 100% Russell 3000

\*\* International Equity Policy Index as of June 30, 2013 = 100% MSCI AC World ex US Index (Net)

\*\*\* Total Equity Policy Index as of June 30, 2013 = 60% Russell 3000 and 40% MSCI AC World ex US Index (Net)

\*\*\*\* Total Fund Policy Index as of June 30, 2013 = 36% Russell 3000, 24% MSCI AC World ex US Index (Net), and 40% Barclays Capital Aggregate

Investment returns are time-weighted returns based on market value and net of investment management fees. The investment returns shown elsewhere in this report are net of all expenses paid by the System (investment management fees, custody and consultant fees, and administrative expenses).



## Schedule of Broker Commissions

Broker selection is the responsibility of individual investment managers. Transactions and commission costs are monitored by State Street Bank (the custodian), the investment consultant, and System staff. Due to the Plan's addition of two MLP separate accounts during the year, the Plan paid \$18,197.56 in commissions for the Fiscal Year 2013, up from \$0.87 in commissions paid for the Fiscal Year 2012.

## List of Largest Assets

*As of June 30, 2013*

### *Ten Largest Stock Holdings within the Domestic Equity (Commingled) Funds (by fair market value)*

Stock	Shares	Fair Value
Exxon Mobile Corp.	84,087	\$7,597,254
Apple Inc.	17,134	\$6,794,278
Microsoft Corp.	142,713	\$4,930,026
General Electric Co.	194,151	\$4,502,359
Johnson & Johnson	50,326	\$4,320,955
Google Inc.	4,880	\$4,296,471
Chevron Corp.	36,150	\$4,278,014
Proctor & Gamble Co.	50,212	\$3,865,800
International Business Machines Corp.	19,982	\$3,818,691
Wells Fargo	89,776	\$3,705,070
JP Morgan	69,786	\$3,683,987
Bershire Hathaway Inc.	32,634	\$3,652,359
AT&T Inc.	100,648	\$3,562,935

### *Ten Largest Bond Holdings (by fair market value)*

Bond	Interest Rate	Maturity Date	Par Value	Fair Value
PIMCO Prv Short-Term*	N/A	N/A	\$18,713,677	\$19,129,114
FNMA Single Fam	4.00%	Dec. 1, 2099	\$16,981,094	\$16,997,440
FNMA Single Fam	5.50%	Dec. 1, 2099	\$13,079,564	\$13,089,360
Federal Natl MTG ASSN	3.50%	Aug. 1, 2041	\$11,505,313	\$11,531,080
Markit CDX IG Incx	1.00%	Jun. 20, 2017	\$11,442,701	\$11,500,000
US Treasury	1.00%	Mar. 31, 2017	\$9,360,961	\$9,427,875
PIMCO Prv Real Return*	N/A	N/A	\$7,639,560	\$7,872,020
JP Morgan Term Repo	0.20%	Jul. 2, 2012	\$7,400,000	\$7,400,000
Citigroup Repo	0.20%	Jul. 2, 2012	\$5,500,000	\$5,500,000
Barclays Capital Repo	0.16%	Jul. 2, 2012	\$4,400,000	\$4,400,000

\*These holdings represent investments in PIMCO's sector funds. Holdings for the sector funds are available upon request.

A complete list of portfolio holdings is available upon request.

# Actuarial Section (Unaudited)



## Actuary's Certification Letter

November 7, 2013

The Board of Trustees  
Employees' Retirement System  
of the City of Norfolk  
Norfolk, Virginia 23510

The Members of the Board:

Actuarial valuations of the Employees' Retirement System of the City of Norfolk are performed annually. The results of the latest actuarial valuation of the System, which we have prepared as of June 30, 2013, are summarized in this letter.

The valuation reflects the benefits in effect on the valuation date and was prepared on the basis of the data submitted by the City of Norfolk and the actuarial assumptions as adopted by the Board of Trustees of the Employees' Retirement System, including a valuation interest rate assumption of 7% per annum, compounded annually.

The actuarial assumptions and methods used for funding purposes comply with the parameters set forth in Governmental Accounting Standards Board Statement No. 25, *Financial Reporting for Defined Benefit Plans*.

### Financing Objective and Contribution Appropriation

The financing objective of the Employees' Retirement System is to:

- a) fully fund the normal cost contribution for the current year determined under the funding method; and
- b) amortize the unfunded accrued liability as of June 30, 2012 over 20 years. There are 19 years left in this period as of the June 30, 2013 valuation date. Future annual changes in the UAL, including the one for experience from June 30, 2012 to June 30, 2013 established concurrent with the June 30, 2013 valuation, will be amortized over a closed period of 20 years as well. All rates are developed using a level-percent of pay amortization method with a 3% per annum increase in the payments.

The City's contribution appropriated for the fiscal year ended June 30, 2013 was determined based on the results of the June 30, 2012 valuation. The City's contribution amount was \$42,330,492.

The results of the June 30, 2013 valuation determine the contribution appropriation for the fiscal year ending June 30, 2014, which will be presented in our valuation report subject to your approval.

As of June 30, 2013, the System's accrued liability was 82% funded based on the actuarial value of assets, including the contribution for the fiscal year ended June 30, 2013. The accrued liability was also 82% funded based on the market value of assets.

Included in the valuation report are contribution and funding progress schedules prepared by the actuary.



## ACTUARIAL SECTION

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### Actuary's Certification Letter

The Board of Trustees  
November 7, 2013  
Page 2

#### Assets and Participant Data

The City reported the individual data for members of the System as of the valuation date to the actuary. While we did not verify the data at their source, we performed an informal examination of the obvious characteristics of the data for reasonableness and consistency in accordance with Actuarial Standard of Practice #23.

The amount of current assets in the trust fund taken into account in the valuation was based on statements prepared for us by the City.

#### Actuarial Assumptions and Methods

The current actuarial assumptions used for valuation purposes were adopted by the Board of Trustees and were first effective for the June 30, 2012 Actuarial Valuation. The most recent study of the System's experience, used in developing the current actuarial assumptions, was based on a period from July 2006 to June 2012. In our opinion, the actuarial assumptions used in the valuation are, in the aggregate, reasonable.

Included in the valuation report is a schedule which presents an outline of the actuarial assumptions and methods used to prepare the actuarial valuation results.

The actuarial cost method utilized is the entry age normal cost method.

The actuarial value of assets are determined by first calculating the expected actuarial value of assets based on last year's valuation interest rate, last year's actuarial value of assets, and the net cash flow (contributions less benefit payments and administrative expenses) of the System over the year prior to the valuation. One-third of the market value of assets less the expected actuarial value of assets is then added to the expected actuarial value of assets to determine the valuation assets.

#### Schedules of Financial Results and Membership Data

Detailed summaries of the financial results of the valuation and membership data used in preparing the valuation are shown in the valuation report. The actuary prepared supporting schedules and required supplementary information included in the Actuarial, Financial, and Statistical Sections of the Comprehensive Annual Financial Report.

I hereby certify that, to the best of my knowledge, this certification letter and its contents have been prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board. Furthermore, as a credentialed actuary, I meet the Qualification Standards of the American Academy of Actuaries to render the opinion contained in this letter. This letter does not address any contractual or legal issues. I am not an attorney and our firm does not provide any legal services or advice.

## ACTUARIAL SECTION

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### Actuary's Certification Letter

The Board of Trustees  
November 7, 2013  
Page 3

This letter was prepared for the City of Norfolk Employees' Retirement System for the purposes described herein and for the use by the plan auditor in completing an audit related to the matters herein. This letter is not intended to benefit any third party, and Cheiron assumes no duty or liability to any such party.

Respectfully submitted,  
Cheiron

A handwritten signature in black ink, appearing to read "Fiona E. Liston", with a long horizontal flourish extending to the right.

Fiona E. Liston, FSA, EA, MAAA  
Principal Consulting Actuary

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## ACTUARIAL SECTION

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### SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

#### Actuarial Assumptions

**Interest Rate:**

7% per annum, compounded annually (adopted as of June 30, 2012).

**Mortality:**

*Pre-Retirement:* RP-2000 Combined Health Mortality projected to 2010 by Scale AA\*

*Health Annuitants:* RP-2000 Combined Health Mortality projected to 2010 by Scale AA

*Disableds:* RP-2000 Disability Mortality projected to 2010 by Scale AA

- \* 5% of deaths are assumed to be accidental for general employees;  
50% of deaths are assumed to be accidental for firefighters and police.

**Salary Increase:**

Representative values are as follows:

Service	Annual Rate of Salary Increase	
	General	Firefighters and Police
0	7.12 %	11.24 %
1	6.97	8.15
2	6.81	7.63
3	6.66	7.63
4	6.50	7.63
5	6.35	7.63
10	5.85	7.63
15	5.70	7.33
20	5.26	5.78
25	4.74	4.55
30	4.23	4.55

The table above includes an annual inflation rate of 3.00%.

**Withdrawal:**

Service	Firefighters and Police	
	General	Police
0	15.00 %	10.00 %
1	13.00	9.00
2	11.00	8.00
3	9.00	7.00
4	9.00	6.00
5	7.50	5.00
10	2.50	2.80
15	2.50	1.00
20	2.50	1.00
25	1.00	1.00
30	1.00	1.00

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ACTUARIAL SECTION

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**SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS (continued)**

**Disability:**

Age	General*		Firefighters and Police**
	Male	Female	Unisex
20	0.07%	0.05%	0.04%
25	0.08	0.05	0.06
30	0.09	0.06	0.08
35	0.14	0.10	0.11
40	0.22	0.15	0.22
45	0.34	0.23	0.40
50	0.51	0.35	0.67
54	0.66	0.45	0.90
55	0.70	0.48	0.96
59	1.02	0.70	1.26

\* 20% of General disabilities are assumed to be accidental.

\*\* 70% of Police & Fire disabilities are assumed to be accidental.

**Retirement:**

*General:*

Age	Early Retirement	Normal Service Retirement
45	5.00 %	7.50 %
50	7.50	7.50
51	5.00	7.50
52	5.00	7.50
53	5.00	7.50
54	5.00	7.50
55	5.00	7.50
56	5.00	7.50
57	5.00	7.50
58	5.00	7.50
59	5.00	7.50
60		12.50
61		12.50
62		12.50
63		12.50
64		12.50
65		25.00
66		15.00
67		15.00
68		15.00
69		15.00
70		100.00

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## ACTUARIAL SECTION

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### SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS (continued)

*Firefighters and Police:*

Service	Rate of Retirement
20	2.50 %
21	3.00
22	3.50
23	4.00
24	5.00
25	10.00
26	25.00
27 and up	10.00

In lieu of the rates above, any active participant at least age 65 are assumed to retire immediately.

**NOTE:** Rates apply to each member based on eligibility requirements as defined in the Summary of Benefit and Contribution Provisions.

**Future Expenses:**

The assumed interest rate is net of the anticipated investment and future administrative expenses of the Employees' Retirement System.

**Loading or Contingency Reserves:**

A load of 0.85% for General employees and 1.05% for Firefighters and Police is applied to retirement benefits for active employees to account for unused sick leave balances at time of retirement.

**Marital Status:**

65% of the General employees and 75% percent of the Firefighters and Police are assumed to be married, with males three years older than females.



## ACTUARIAL SECTION

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### SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS (concluded)

#### **Methods**

##### **Actuarial Cost Method:**

Entry Age Normal Cost Method. The unfunded actuarial liability (UAL) that arose from the offering of the Public Safety Retirement Enhancement Program is being amortized over a closed 20-year period commencing as of July 1, 2005. There are 12 years left in this period as of the June 30, 2013 valuation date. The unfunded actuarial liability (UAL) that arose from the offering of the Voluntary Retirement Incentive Program in Spring 2012 is being amortized over a closed 20-year period commencing as of July 1, 2012. There are 19 years left in this period as of the June 30, 2013 valuation date. Future annual changes in the UAL, including the one for experience from June 30, 2012 to June 30, 2013 established concurrent with the June 30, 2013 valuation, will be amortized over a closed period of 20 years as well. All rates are developed using a level-percent of pay amortization method with a 3% per annum increase in the payments.

##### **Asset Valuation Method:**

The actuarial value of assets is determined by first calculating the expected actuarial value of assets based on last year's valuation interest rate, last year's actuarial value of assets, and the net cash flow (contributions less benefit payments) of the System over the year prior to the valuation. One-third of the market value of assets less the expected actuarial value of assets is then added to the expected actuarial value of assets to determine the valuation assets.

## ACTUARIAL SECTION

### SCHEDULE OF ACTIVE MEMBER VALUATION DATA

#### Census and Assets:

The valuation was based on members of the System as of June 30, 2013 and does not take into account future members. All census data were supplied by the Executive Secretary of the System and were subject to reasonable consistency checks. Asset data were supplied by the Executive Secretary and the accountants of the System.

#### General Employees:

Valuation as of June 30	Number of Active Members*	Valuation Payroll	Average Salary	Percent Increase in Average
2013	2,787	\$120,324,357	\$43,173	2.1%
2012	2,517	106,447,927	42,292	0.7
2011	2,613	109,766,481	42,008	(0.1)
2010	2,683	112,857,502	42,064	(0.6)
2009	2,737	115,782,546	42,303	1.1
2008	2,731	114,324,832	41,862	1.7
2007	2,664	109,648,809	41,159	2.5
2006	2,581	103,670,563	40,167	2.9

\* Excludes 14 members on leave of absence on June 30, 2013.

#### Firefighters and Police:

Valuation as of June 30	Number of Active Members*	Valuation Payroll	Average Salary	Percent Increase (Decrease) in Average
2013	1,268	\$63,737,215	\$50,266	(0.2)%
2012	1,214	61,145,037	50,367	0.8
2011	1,224	61,155,439	49,964	(1.2)
2010	1,232	63,321,292	50,585	(1.0)
2009	1,249	63,808,617	51,088	0.7
2008	1,204	61,065,532	50,719	3.0
2007	1,188	58,481,530	49,227	5.0
2006	1,186	55,608,188	46,887	(1.3)

\* Excludes 8 members on leave of absence on June 30, 2013.

#### Total:

Valuation as of June 30	Number of Active Members*	Valuation Payroll	Average Salary	Percent Increase in Average
2013	4,055	\$184,061,572	\$45,391	1.1%
2012	3,731	167,592,964	44,919	0.8
2011	3,837	170,921,920	44,546	(0.4)
2010	3,915	175,178,794	44,745	(0.7)
2009	3,986	179,591,163	45,055	1.1
2008	3,935	175,390,364	44,572	2.1
2007	3,852	168,130,339	43,648	3.2
2006	3,767	159,278,750	42,283	1.3

\* Excludes 22 members on leave of absence on June 30, 2013.

## ACTUARIAL SECTION

### RETIREES AND BENEFICIARIES ADDED TO AND REMOVED FROM ROLLS

Year Ended June 30	Added to Rolls		Removed from Rolls		On Rolls at Year-End		Average Allowance	% Increase Average Allowance
	No.	Annual Allowance	No.	Annual Allowance	No.	Annual Allowance		
2013	164	\$3,077,308	106	\$1,317,734	3,605	\$73,997,729	\$20,526	0.8%
2012	322	8,428,819	100	1,536,835	3,547	72,238,155	20,366	3.6%
2011	168	3,428,334	114	1,458,047	3,325	65,346,171	19,653	1.4%
2010	152	3,482,589	111	1,278,794	3,271	63,375,884	19,375	2.3%
2009	179	3,616,692	228	2,298,307	3,230	61,172,089	18,939	3.8%
2008	145	3,644,988	88	1,233,612	3,279	59,853,704	18,254	2.4%
2007	176	4,566,162	105	1,431,827	3,222	57,442,328	17,828	3.4%
2006	308	10,207,250	86	992,041	3,151	54,307,994	17,235	12.0%

**Note:** The amount added to the rolls includes additions and deletions due to COLAs, supplements, workers' compensation in addition to the annual allowance for new retirees.

The number of records removed from the rolls in 2009 includes 127 records which were excluded due to our recognizing that the valuation date was later than the "date beneficiary's benefits ended".

## ACTUARIAL SECTION

### SOLVENCY TEST

The System's funding objective is to meet long-term benefit obligations through contributions that remain approximately level from year to year as a percentage of the members' payroll. If the contributions to the System are level in concept and soundly executed, the System will pay promised benefits when due; thus, providing the ultimate test of financial soundness. Testing for level contribution rates is the long-term test.

A short condition test is one means of checking a plan's progress under its funding program. In a short condition test, the System's present assets (cash and investments) are compared with: (1) active member contributions, (2) the liabilities for future benefits to present retired lives, and (3) the employer-provided portion of liabilities for service already rendered by active members. In a plan that has been following the discipline of level percent of payroll financing, the active member contribution balances (Liability (1)), the liabilities for future benefits to present retired members (Liability (2)) will be fully covered by present assets, except in rare circumstances. In addition, the liabilities for service already rendered by active members (Liability (3)) will be at least partially covered by the remainder of present assets.

The relationship between accrued liabilities and net assets of the System for fiscal years ended June 30, 2006 through June 30, 2013 are presented as follows:

Valuation Date	(1)	(2)	(3)	Actuarial Value of Assets	Portion of Accrued Liabilities Covered by Actuarial Assets		
	Active Member Contributions	Retirees, Vested Terms, Beneficiaries	Active Members (Employer Financed Portion)		(1)	(2)	(3)
2013	\$1,044,830	\$782,859,810	\$375,809,231	\$954,499,184	100.0%	100.0%	45.4%
2012 <sup>(1)</sup>	629,200	768,508,092	375,269,338	923,198,558	100.0%	100.0%	41.1%
2011	196,733	658,831,846	404,945,415	831,975,004	100.0%	100.0%	42.7%
2010	54,808	637,488,648	409,218,088	817,698,124	100.0%	100.0%	44.0%
2009	72,008	617,813,260	411,732,258	885,609,003	100.0%	100.0%	65.0%
2008 <sup>(2)</sup>	78,685	605,567,032	403,409,400	937,766,796	100.0%	100.0%	82.3%
2007 <sup>(3)</sup>	83,376	585,584,308	386,563,802	925,821,257	100.0%	100.0%	88.0%
2006 <sup>(4)</sup>	84,360	566,232,610	372,779,959	881,035,790	100.0%	100.0%	84.4%

(1) Retirees and beneficiaries as of June 30, 2011 were granted a permanent 2.0% supplemental benefit increase effective July 2012.

150 members retired under the Voluntary Retirement Incentive Program (VRIP) between July 1, 2011 and June 30, 2012.

(2) Retirees and beneficiaries as of May 1, 2007 were granted a permanent 2.0% supplemental benefit increase effective July 2008.

(3) Retirees and beneficiaries as of June 30, 2006 were granted a permanent 2.0% supplemental benefit increase effective July 2007.

(4) Retirees and beneficiaries as of June 30, 2005 were granted a permanent 2.5% supplemental benefit increase effective July 2006.

137 members retired under the Public Safety Retirement Enhancement Program (PSREP) between July 1, 2005 and June 30, 2006.

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## ACTUARIAL SECTION

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### ANALYSIS OF FINANCIAL EXPERIENCE

Type of Activity	2010	2011	2012	2013
Investment income	\$(104,166,163)	\$(21,698,596)	\$ 31,495,079	\$ 97,241
Combined liability experience	<u>18,097,499</u>	<u>12,889,233</u>	<u>3,881,141</u>	<u>15,351,662</u>
Gain (loss) during year from financial experience	(86,068,664)	(8,809,363)	35,376,220	15,448,903
Non-recurring items	<u>0</u>	<u>3,202,603</u>	<u>(26,747,315)</u>	<u>(1,451,935)</u>
Composite gain (loss) during year	\$(86,068,664)	\$ (5,606,760)	\$ 8,628,905	\$ 13,966,968

## ACTUARIAL SECTION

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### SUMMARY OF BENEFIT AND CONTRIBUTION PROVISIONS

The following is intended to summarize the key benefits valued in this valuation. Members of the System and other parties should not rely on this summary as a substitute for or interpretation of the laws and ordinances of the Norfolk City Code covering this retirement plan.

#### Membership

Any permanent regular full-time employee entering the service of the City of Norfolk is required to become a member of the Retirement System. Upon entering the System, members are classified according to their occupational group, either as general employees, firefighters, police officers, or paramedics.

Paramedics, formerly members of the General Employees Group, were reclassified as members of firefighters and police effective June 9, 1992. City Council members on or after July 1, 2001 are classified as members of firefighters and police.

Employees of the Norfolk Community Services Board became participants on July 1, 2012.

For each full calendar year beginning on or after January 1, 1997, any permanent part-time employees shall be members of and entitled to benefits in proportion to which their annual hours bear to that of full-time employees.

#### Benefits

##### Normal Service Retirement Allowance:

###### Eligibility:

The earlier of age 60 or 30 years of creditable service for general employees. The earlier of age 55 or 25 years of creditable service for firefighters, police officers, and paramedics. Mandatory retirement is age 65 for firefighters and police officers.

###### Employees Hired Before July 1, 1980:

For general employees, the pension earned is 2% of average final compensation for each year of creditable service.

Effective January 1, 1997 for general employees, the maximum number of years of creditable service is the greater of 35 years or the number of years of service as of December 31, 1996.

For firefighters, police officers, and paramedics, the pension earned is 2.5% of average final compensation for each year of creditable service up to a maximum of 65% of average final compensation.

###### Employees Hired on or After July 1, 1980:

For general employees, the pension earned is 1.75% of average final compensation for each year of creditable service up to a maximum of 35 years.

For firefighters, police officers, and paramedics, the pension earned is 2.5% of average final compensation for each year of creditable service up to a maximum of 65% of average final compensation.

*“Average Final Compensation” means the average annual earnable compensation for the three years of creditable service which produces the highest average. Creditable service consists of membership service plus 100% of accumulated unused sick leave for all employees except firefighters. For firefighters, 46% of unused sick leave accumulated prior to July 1, 1985 and 100% of unused sick leave accumulated on and after July 1, 1985 is included.*

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## ACTUARIAL SECTION

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### SUMMARY OF BENEFIT AND CONTRIBUTION PROVISIONS (continued)

#### Early Service Retirement Allowance

**Eligibility:**

Within five years of eligibility for normal service retirement.

**Amount:**

Accrued service retirement allowance deferred to normal service retirement age. A member may elect to receive an immediate benefit equal to the accrued service retirement allowance reduced by  $\frac{1}{4}$  of 1% for each month commencement date precedes the normal retirement date for general employees, and  $\frac{1}{2}$  of 1% for each month commencement date precedes the normal retirement date for firefighters, police officers, and paramedics.

#### Vested Allowance

**Eligibility:**

Five years of creditable service.

**Amount:**

Accrued service retirement allowance deferred to normal retirement age. If not eligible for retirement, a member may elect to leave their contributions made prior to July 1, 1972 with interest, if any, in the System until normal service retirement date.

#### Ordinary Disability Retirement Allowance

**Eligibility:**

Five years of creditable service and total and permanent disability not due to an accident in the performance of duty.

**Amount:**

Accrued service retirement allowance with a minimum of 25% of average final compensation. The minimum cannot exceed the normal service retirement allowance based on average final compensation and creditable service projected to normal service retirement date.

#### Accidental Disability Retirement Allowance

**Eligibility:**

Total and permanent disability as a result of an accident in the performance of duty, regardless of length of service. Applications must be filed within six years from date of accident.

The disability of a firefighter, police officer, sheriff, or deputy sheriff caused by hypertension, heart disease, or respiratory disease is presumed to have been suffered in the line of duty unless the contrary is shown by medical evidence.

**Amount:**

The amount payable is 66 $\frac{2}{3}$ % of average final compensation.

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## ACTUARIAL SECTION

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### SUMMARY OF BENEFIT AND CONTRIBUTION PROVISIONS (continued)

#### Ordinary Death Benefit

**Eligibility:**

Death in active service due to causes not the result of an accident in the performance of duty. Benefits are paid to a designated beneficiary or estate.

**Amount:**

All contributions, if any, made by the member with not less than one-half of the interest credited are paid. In addition, if the member had one year of creditable service if he became a member prior to July 1, 1979 and five years of creditable service if he became a member on or after July 1, 1979, an additional lump-sum benefit equal to 50% of their earnable compensation during the year immediately preceding their death is payable. If a member dies in service after the earlier of completion of 10 years of service or early service retirement eligibility and if the designated beneficiary for the lump-sum death benefit is the spouse, the spouse may elect to receive, in lieu of the lump sum death benefit, a monthly pension payable until death or remarriage. If the member was eligible for early or normal service retirement, the spouse's benefit is equal to one-half of the retirement allowance that would have been payable to the member had the member retired and immediately commenced payment. If the member was not eligible for early or normal service retirement, the spouse's benefit is equal to one-half of the normal service retirement allowance, which would have been payable to the member if he or she had been vested, such benefit to commence at the same time as the vested benefit would have been paid to the member. If the spouse dies or remarries before the youngest unmarried child attains age 18, the pension shall continue to the date that all the children have died, married, or attained age 18; whichever occurs first. If the spouse was receiving benefits on or before June 30, 1978, payments shall continue after remarriage with no further payments after death.

#### Accidental Death Benefit

**Eligibility:**

Death in active service resulting from an accident in the performance of duty within six years from the date of the accident. The death of a firefighter, police officer, sheriff, or deputy sheriff caused by hypertension, heart disease, or respiratory disease in the case of firefighters is presumed to have been suffered in the line of duty, unless the contrary is shown by medical evidence.

**Amount:**

Fifty percent of average final compensation is payable to spouse until death or remarriage. If there is no spouse or if spouse dies or remarries, benefit is payable to children under age 18 or dependent parents. In addition, all contributions, if any, made by the member with not less than one-half of the interest credited are paid to their designated recipient or estate. If there is no spouse, a lump-sum benefit equal to 50% of their earnable compensation during the year immediately preceding their death is payable.

**Offset on Account of Workers' Compensation:**

All benefits paid under the provisions of any workers' compensation act or any similar law to any member or beneficiary, or to the dependents of any member or beneficiary on account of any disability or death are in such manner as the Board determines, offset against any benefits provided from City contributions to the Employees' Retirement System.



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## ACTUARIAL SECTION

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### SUMMARY OF BENEFIT AND CONTRIBUTION PROVISIONS (continued)

#### Death Benefit After Retirement

**Eligibility:**

Death of a retired member receiving retirement allowance payments and who completed five years of creditable service if they became a member after July 1, 1979 or of a spouse receiving an accidental death benefit.

**Amount:**

Lump sum equal to one-half of the average final compensation on which the retirement allowance of the deceased retired member or spouse was based. The lump sum is payable to the surviving spouse, to unmarried children under age 18, or unmarried children over age 18 who are physically or mentally unable to make a living.

In the case of a retired member who dies and leaves a surviving spouse, the spouse may elect to receive, in lieu of the lump-sum death benefit, a monthly benefit payable until death or remarriage, which is equal to one-half of the retirement allowance, which the deceased member was receiving at the time of their death, provided the member had not made an optional election. If the spouse dies or remarries before the youngest unmarried child attains age 18, the pension will continue to the date that all the children have died, married, or attained age 18, whichever occurs first. If the spouse was receiving payments on or before June 30, 1978, payments shall continue after remarriage with no further payments after death.

#### Return of Contributions

**Eligibility:**

Termination of membership prior to death.

**Amount:**

If not eligible for a retirement allowance, all contributions with not less than one-half of interest credited. If eligible for normal or early service, ordinary disability, accidental disability, or vested retirement allowance, their contributions, if any, with not less than one-half of the interest credited. The member may elect, prior to the commencement of their retirement allowance, to receive an annuity which is the actuarial equivalent of their accumulated contributions.

**Normal and Optional Forms of Benefits:**

Normal Life	Life Annuity
Option A	A reduced pension with the provision that at death the reduced pension will be continued throughout the life of the designated beneficiary.
Option B	A reduced pension with the provision that at death, one-half of the reduced pension will be continued throughout the life of the designated beneficiary.
Option C	A reduced pension with the provision that at death some other benefit approved by the Board of Trustees will be payable.

## ACTUARIAL SECTION

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### **SUMMARY OF BENEFIT AND CONTRIBUTION PROVISIONS (concluded)**

#### **Return of Contributions, (concluded)**

##### **Contributions**

By Members	5% of pay for anyone hired on or after October 5, 2010.
By City	Annual contributions actuarially computed to be required to cover the cost of benefits of the System.

#### **Changes in Plan Provisions**

Employees of the Norfolk Community Services Board became participants on July 1, 2012.

# Statistical Section (Unaudited)

## STATISTICAL SECTION

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### About the Statistical Section

This section provides the reader with detailed information about the economics and demographic trends experienced over the past eight years in the System.

***Schedule of Additions by Source and Deductions by Type*** displays the changes in plan net assets as a result of payments made to and by the System.

***Schedule of Benefit Payments by Type*** identifies the type of payments made to beneficiaries and former employees.

***Schedule of Retired Members by Type of Benefit*** identifies the range of benefit payments made to retirees sorted by plan and type of retirement for the current fiscal year.

***Schedule of Average Benefit Payments*** presents the average monthly benefit paid as of June 30, 2013.

## STATISTICAL SECTION

### ADDITIONS BY SOURCE AND DEDUCTIONS BY TYPE

#### Schedule of Additions by Source

<u>Employers' Contributions</u>					
<b>Fiscal Year Ended June 30</b>	<b>Employee Contributions</b>	<b>Dollars</b>	<b>% of Covered Payroll</b>	<b>Total Net Investment Income (Loss)</b>	<b>Additions</b>
2013	\$ 1,000,000	\$ 42,300,000	23.84 %	\$ 100,600,000	\$ 143,900,000
2012	600,000	41,500,000	25.11	3,700,000	45,800,000
2011	100,000	42,800,000	24.80	155,400,000	198,300,000
2010	-	35,500,000	19.98	92,200,000	127,700,000
2009	-	28,300,000	16.16	(131,200,000)	(102,900,000)
2008	-	25,700,000	14.90	(48,500,000)	(22,800,000)
2007	-	25,100,000	15.98	128,700,000	153,800,000
2006	-	25,700,000	15.28	40,000,000	65,700,000

#### Schedule of Deductions by Type

<b>Fiscal Year Ended June 30</b>	<b>Benefit Payments</b>	<b>Refund of Contributions</b>	<b>Lump-Sum Death Benefits</b>	<b>Administrative Expenses</b>	<b>Total Deductions</b>
2013	\$ 74,000,000	\$ -	\$ 200,000	\$ 500,000	\$ 74,700,000
2012	71,000,000	-	100,000	500,000	71,600,000
2011	65,600,000	-	200,000	600,000	66,400,000
2010	63,000,000	-	200,000	600,000	63,800,000
2009	60,900,000	-	200,000	700,000	61,800,000
2008	58,000,000	-	300,000	600,000	58,900,000
2007	55,500,000	-	100,000	600,000	56,200,000
2006	51,100,000	100,000	100,000	600,000	51,900,000

#### Total Change in Net Assets

<b>Fiscal Year Ended June 30</b>	<b>Total Change in Net Assets</b>
2013	\$ 69,200,000
2012	(25,800,000)
2011	131,900,000
2010	63,900,000
2009	(164,700,000)
2008	(81,700,000)
2007	97,600,000
2006	13,800,000

Contributions were made in accordance with the actuarially determined contribution requirement.

## STATISTICAL SECTION

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### Schedule of Benefit Payments by Type Annual Allowances Scheduled to be Paid in Ensuing Fiscal Year

#### General

As of June 30	Service Retired Members	Contingent Annuitants	Disabled Annuitants	Total
2013	\$ 34,407,000	\$ 2,647,000	\$ 2,871,000	\$ 39,925,000
2012	33,871,000	2,720,000	2,907,000	39,498,000
2011	29,349,000	2,313,000	2,776,000	34,438,000
2010	28,343,000	2,268,000	2,776,000	33,387,000
2009	27,437,000	2,252,000	2,718,000	32,407,000
2008	26,435,000	2,509,000	2,704,000	31,648,000
2007	25,534,000	2,279,000	2,683,000	30,496,000
2006	24,224,000	2,022,000	2,575,000	28,821,000

#### Firefighters and Police

As of June 30	Service Retired Members	Contingent Annuitants	Disabled Annuitants	Total
2013	\$ 29,227,000	\$ 1,901,000	\$ 2,945,000	\$ 34,073,000
2012	27,940,000	1,855,000	2,945,000	32,740,000
2011	26,547,000	1,554,000	2,807,000	30,908,000
2010	25,613,000	1,547,000	2,829,000	29,989,000
2009	24,320,000	1,531,000	2,914,000	28,765,000
2008	23,682,000	1,594,000	2,929,000	28,205,000
2007	22,927,000	1,470,000	2,549,000	26,946,000
2006	21,824,000	1,374,000	2,288,000	25,486,000

#### Total

As of June 30	Service Retired Members	Contingent Annuitants	Disabled Annuitants	Total*
2013	\$ 63,634,000	\$ 4,546,000	\$ 5,816,000	\$ 73,998,000
2012	61,811,000	4,575,000	5,852,000	72,238,000
2011	55,896,000	3,867,000	5,583,000	65,346,000
2010	53,956,000	3,815,000	5,605,000	63,376,000
2009	51,757,000	3,783,000	5,632,000	61,172,000
2008	50,117,000	4,103,000	5,633,000	59,853,000
2007	48,461,000	3,749,000	5,232,000	57,442,000
2006	46,048,000	3,396,000	4,863,000	54,307,000

\* Reflects monthly benefits in pay status, multiplied by 12. Not intended to agree with actual payouts in the prior year as shown on the previous page.

# STATISTICAL SECTION

Schedule of Retired Members by Type of Benefit as of June 30, 2013

General																		
Amount of Monthly Benefit	Number of Retirees	Type of Retirement															Option Selected*	
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	1	2
Deferred**	788																	
\$1-\$300	274	36	4	0	23	1	97	53	0	37	2	0	0	13	7	1	68	127
\$301-\$600	470	65	4	0	72	7	149	80	1	67	0	0	0	20	5	0	101	254
\$601-\$900	291	26	1	1	41	8	124	57	0	28	0	0	0	2	3	0	60	168
\$901-\$1,200	250	10	2	0	27	9	126	65	0	10	0	0	0	1	0	0	76	127
\$1,201-\$1,500	249	15	2	0	15	17	130	61	0	7	0	0	0	1	1	0	85	148
\$1,501-\$1,800	197	4	1	1	13	8	93	76	0	1	0	0	0	0	0	0	86	104
\$1,801-\$2,100	183	4	0	0	10	6	123	40	0	0	0	0	0	0	0	0	71	111
\$2,101-\$2,400	134	2	1	0	4	2	90	34	0	1	0	0	0	0	0	0	56	73
\$2,401-\$2,700	117	1	0	0	4	0	93	19	0	0	0	0	0	0	0	0	43	73
\$2,701-\$3,000	89	1	0	0	2	1	77	8	0	0	0	0	0	0	0	0	27	62
Over \$3,000	189	1	1	0	3	1	170	12	0	1	0	0	0	0	0	0	46	140
Totals	3,231	165	16	2	214	60	1,272	505	1	152	2	0	0	37	16	1	719	1,387

Firefighters and Police																		
Amount of Monthly Benefit	Number of Retirees	Type of Retirement															Option Selected*	
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	1	2
Deferred**	209																	
\$1-\$300	29	4	0	0	5	6	3	2	0	9	0	0	0	0	0	0	5	6
\$301-\$600	89	11	0	1	15	15	19	3	0	21	2	0	2	0	0	0	13	29
\$601-\$900	74	10	0	2	10	20	20	8	0	3	0	0	1	0	0	0	8	33
\$901-\$1,200	67	2	3	1	10	10	26	11	0	3	0	1	0	0	0	0	12	28
\$1,201-\$1,500	73	1	1	1	5	10	42	10	0	0	1	1	1	0	0	0	8	38
\$1,501-\$1,800	57	2	1	2	3	15	23	11	0	0	0	0	0	0	0	0	8	37
\$1,801-\$2,100	75	0	0	0	5	12	46	12	0	0	0	0	0	0	0	0	16	54
\$2,101-\$2,400	78	0	0	0	2	15	47	13	0	0	0	1	0	0	0	0	18	57
\$2,401-\$2,700	97	0	0	0	2	7	76	12	0	0	0	0	0	0	0	0	28	69
\$2,701-\$3,000	90	0	0	0	0	11	70	9	0	0	0	0	0	0	0	0	28	62
Over \$3,000	433	1	0	0	3	7	407	9	0	0	3	2	1	0	0	0	115	317
Totals	1,371	31	5	7	60	128	779	100	0	36	6	5	5	0	0	0	259	730

Total																		
Amount of Monthly Benefit	Number of Retirees	Type of Retirement															Option Selected*	
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	1	2
Deferred**	997																	
\$1-\$300	303	40	4	0	28	7	100	55	0	46	2	0	0	13	7	1	73	133
\$301-\$600	559	76	4	1	87	22	168	83	1	88	2	0	2	20	5	0	114	283
\$601-\$900	365	36	1	3	51	28	144	65	0	31	0	0	1	2	3	0	68	201
\$901-\$1,200	317	12	5	1	37	19	152	76	0	13	0	1	0	1	0	0	88	155
\$1,201-\$1,500	322	16	3	1	20	27	172	71	0	7	1	1	1	1	1	0	93	186
\$1,501-\$1,800	254	6	2	3	16	23	116	87	0	1	0	0	0	0	0	0	94	141
\$1,801-\$2,100	258	4	0	0	15	18	169	52	0	0	0	0	0	0	0	0	87	165
\$2,101-\$2,400	212	2	1	0	6	17	137	47	0	1	0	1	0	0	0	0	74	130
\$2,401-\$2,700	214	1	0	0	6	7	169	31	0	0	0	0	0	0	0	0	71	142
\$2,701-\$3,000	179	1	0	0	2	12	147	17	0	0	0	0	0	0	0	0	55	124
Over \$3,000	622	2	1	0	6	8	577	21	0	1	3	2	1	0	0	0	161	457
Totals	4,602	196	21	9	274	188	2,051	605	1	188	8	5	5	37	16	1	978	2,117

\* Beneficiaries were excluded.

Type of Retirement:

- |                           |                             |                                    |
|---------------------------|-----------------------------|------------------------------------|
| 1 = Resigned              | 6 = Normal Retirement       | 11 = Accidental Disability (Heart) |
| 2 = Ordinary Death        | 7 = Early Retirement        | 12 = Accidental Disability (Lung)  |
| 3 = Accidental Death      | 8 = Inactive Vested         | 13 = Terminated                    |
| 4 = Ordinary Disability   | 9 = Vested Interest Service | 14 = Dismissed                     |
| 5 = Accidental Disability | 10 = Compulsory Service     | 15 = From Perm to Ineligible       |

Option Selected:

- 1 = Straight Life Annuity  
2 = Joint and 50% Survivor

\*\* Deferred Future Benefits - Terminated employees entitled to benefits but not yet receiving them.

## STATISTICAL SECTION

### Schedule of Retired Members by Type of Benefit as of June 30, 2013

#### General

Amount of Monthly Benefit	Number of Retirees	Type of Retirement			Option Selected*	
		Service Retired Members	Contingent Annuitants	Disabled Annuitants	1	2
Deferred**	788					
\$1-\$300	274	189	78	7	68	127
\$301-\$600	470	308	115	47	101	254
\$601-\$900	291	190	63	38	60	168
\$901-\$1,200	250	168	47	35	76	127
\$1,201-\$1,500	249	202	17	30	85	148
\$1,501-\$1,800	197	169	7	21	86	104
\$1,801-\$2,100	183	166	1	16	71	111
\$2,101-\$2,400	134	123	5	6	56	73
\$2,401-\$2,700	117	112	1	4	43	73
\$2,701-\$3,000	89	86	0	3	27	62
Over \$3,000	<u>189</u>	<u>182</u>	<u>3</u>	<u>4</u>	<u>46</u>	<u>140</u>
Totals	3,231	1,895	337	211	719	1,387

#### Firefighters and Police

Amount of Monthly Benefit	Number of Retirees	Type of Retirement			Option Selected*	
		Service Retired Members	Contingent Annuitants	Disabled Annuitants	1	2
Deferred**	209					
\$1-\$300	29	11	17	1	5	6
\$301-\$600	89	34	47	8	13	29
\$601-\$900	74	25	33	16	8	33
\$901-\$1,200	67	28	27	12	12	28
\$1,201-\$1,500	73	34	27	12	8	38
\$1,501-\$1,800	57	29	12	16	8	37
\$1,801-\$2,100	75	53	5	17	16	54
\$2,101-\$2,400	78	57	3	18	18	57
\$2,401-\$2,700	97	87	1	9	28	69
\$2,701-\$3,000	90	79	0	11	28	62
Over \$3,000	<u>433</u>	<u>419</u>	<u>1</u>	<u>13</u>	<u>115</u>	<u>317</u>
Totals	1,371	856	173	133	259	730

#### Total

Amount of Monthly Benefit	Number of Retirees	Type of Retirement			Option Selected*	
		Service Retired Members	Contingent Annuitants	Disabled Annuitants	1	2
Deferred**	997					
\$1-\$300	303	200	95	8	73	133
\$301-\$600	559	342	162	55	114	283
\$601-\$900	365	215	96	54	68	201
\$901-\$1,200	317	196	74	47	88	155
\$1,201-\$1,500	322	236	44	42	93	186
\$1,501-\$1,800	254	198	19	37	94	141
\$1,801-\$2,100	258	219	6	33	87	165
\$2,101-\$2,400	212	180	8	24	74	130
\$2,401-\$2,700	214	199	2	13	71	142
\$2,701-\$3,000	179	165	0	14	55	124
Over \$3,000	<u>622</u>	<u>601</u>	<u>4</u>	<u>17</u>	<u>161</u>	<u>457</u>
Totals	4,602	2,751	510	344	978	2,117

\* Beneficiaries were excluded.

Option Selected:

- 1 = Straight Life Annuity
- 2 = Joint and 50% Survivor

\*\* Deferred Future Benefits - Terminated employees entitled to benefits but not yet receiving them.



## STATISTICAL SECTION

### Schedule of Average Benefit Payments (Excludes Beneficiaries)

Retirement Effective Dates	General						
	Years of Credited Service						
	0-5	5-10	10-15	15-20	20-25	25-30	30+
July 1, 2006 to June 30, 2007							
Average Monthly Benefit	\$385	\$263	\$535	\$814	\$1,395	\$1,852	\$2,508
Average - Average Final Compensation	\$29,789	\$28,398	\$26,926	\$31,144	\$40,839	\$44,686	\$44,128
Number of Active Retirees	7	4	25	13	13	13	30
July 1, 2007 to June 30, 2008							
Average Monthly Benefit	\$185	\$634	\$459	\$796	\$1,298	\$1,741	\$2,612
Average - Average Final Compensation	\$46,281	\$55,669	\$25,864	\$28,757	\$39,042	\$42,564	\$47,676
Number of Active Retirees	1	3	23	11	10	11	20
July 1, 2008 to June 30, 2009							
Average Monthly Benefit	\$239	\$333	\$465	\$1,040	\$1,471	\$1,668	\$3,004
Average - Average Final Compensation	\$46,768	\$31,975	\$23,733	\$39,305	\$45,720	\$46,594	\$53,518
Number of Active Retirees	2	9	21	6	13	13	31
July 1, 2009 to June 30, 2010							
Average Monthly Benefit	\$255	\$353	\$692	\$1,032	\$1,758	\$1,742	\$3,046
Average - Average Final Compensation	\$56,408	\$28,140	\$35,515	\$35,201	\$47,789	\$44,477	\$54,795
Number of Active Retirees	3	11	17	14	9	11	29
July 1, 2010 to June 30, 2011							
Average Monthly Benefit	\$292	\$483	\$743	\$794	\$1,993	\$1,823	\$2,570
Average - Average Final Compensation	\$67,794	\$37,910	\$38,452	\$29,340	\$59,928	\$45,012	\$50,079
Number of Active Retirees	3	11	23	13	9	15	30
July 1, 2011 to June 30, 2012							
Average Monthly Benefit	\$185	\$503	\$737	\$1,367	\$1,479	\$1,781	\$2,856
Average - Average Final Compensation	\$39,162	\$41,069	\$36,165	\$55,196	\$44,673	\$45,445	\$52,147
Number of Active Retirees	8	21	33	17	28	22	88
July 1, 2012 to June 30, 2013							
Average Monthly Benefit	\$54	\$423	\$829	\$1,166	\$1,562	\$1,694	\$2,775
Average - Average Final Compensation	\$51,821	\$41,897	\$39,462	\$45,255	\$46,854	\$52,364	\$54,849
Number of Active Retirees	5	11	26	17	5	9	20

## STATISTICAL SECTION

### Schedule of Average Benefit Payments (Excludes Beneficiaries)

Retirement Effective Dates	Firefighters and Police						
	Years of Credited Service						
	0-5	5-10	10-15	15-20	20-25	25-30	30+
July 1, 2006 to June 30, 2007							
Average Monthly Benefit	\$0	\$0	\$867	\$1,879	\$2,520	\$3,227	\$4,570
Average - Average Final Compensation	\$0	\$0	\$31,572	\$48,694	\$53,629	\$57,276	\$74,658
Number of Active Retirees	0	0	6	3	7	13	4
July 1, 2007 to June 30, 2008							
Average Monthly Benefit	\$0	\$0	\$1,009	\$1,262	\$2,404	\$3,025	\$3,863
Average - Average Final Compensation	\$0	\$0	\$38,885	\$41,792	\$55,165	\$54,778	\$73,329
Number of Active Retirees	0	0	2	3	7	9	6
July 1, 2008 to June 30, 2009							
Average Monthly Benefit	\$0	\$0	\$540	\$1,452	\$2,914	\$3,763	\$3,381
Average - Average Final Compensation	\$0	\$0	\$25,951	\$42,421	\$58,382	\$68,073	\$62,851
Number of Active Retirees	0	0	8	4	6	17	4
July 1, 2009 to June 30, 2010							
Average Monthly Benefit	\$0	\$0	\$0	\$0	\$2,947	\$3,412	\$4,000
Average - Average Final Compensation	\$0	\$0	\$0	\$0	\$63,537	\$62,020	\$71,886
Number of Active Retirees	0	0	0	0	10	12	12
July 1, 2010 to June 30, 2011							
Average Monthly Benefit	\$0	\$1,452	\$1,131	\$1,293	\$2,594	\$3,516	\$3,860
Average - Average Final Compensation	\$0	\$90,137	\$30,385	\$36,401	\$54,084	\$63,775	\$69,548
Number of Active Retirees	0	2	4	2	3	16	10
July 1, 2011 to June 30, 2012							
Average Monthly Benefit	\$0	\$0	\$1,270	\$2,125	\$2,995	\$3,472	\$3,672
Average - Average Final Compensation	\$0	\$0	\$37,819	\$46,354	\$62,583	\$64,224	\$67,511
Number of Active Retirees	0	0	5	3	8	16	10
July 1, 2012 to June 30, 2013							
Average Monthly Benefit	\$0	\$0	\$1,098	\$2,321	\$2,620	\$3,280	\$3,795
Average - Average Final Compensation	\$0	\$0	\$34,508	\$50,676	\$56,745	\$60,695	\$68,762
Number of Active Retirees	0	0	4	2	9	17	14

## STATISTICAL SECTION

### Schedule of Average Benefit Payments (Excludes Beneficiaries)

Retirement Effective Dates	Total						
	Years of Credited Service						
	0-5	5-10	10-15	15-20	20-25	25-30	30+
July 1, 2006 to June 30, 2007							
Average Monthly Benefit	\$385	\$263	\$599	\$1,014	\$1,789	\$2,540	\$2,751
Average - Average Final Compensation	\$29,789	\$28,398	\$27,825	\$34,435	\$45,315	\$50,981	\$47,720
Number of Active Retirees	7	4	31	16	20	26	34
July 1, 2007 to June 30, 2008							
Average Monthly Benefit	\$185	\$634	\$503	\$896	\$1,754	\$2,318	\$2,900
Average - Average Final Compensation	\$46,281	\$55,669	\$26,906	\$31,550	\$45,681	\$48,060	\$53,596
Number of Active Retirees	1	3	25	14	17	20	26
July 1, 2008 to June 30, 2009							
Average Monthly Benefit	\$239	\$333	\$486	\$1,205	\$1,927	\$2,855	\$3,047
Average - Average Final Compensation	\$46,768	\$31,975	\$24,345	\$40,551	\$49,719	\$58,766	\$54,585
Number of Active Retirees	2	9	29	10	19	30	35
July 1, 2009 to June 30, 2010							
Average Monthly Benefit	\$255	\$353	\$692	\$1,032	\$2,383	\$2,613	\$3,325
Average - Average Final Compensation	\$56,408	\$28,140	\$35,515	\$35,201	\$56,078	\$53,630	\$59,797
Number of Active Retirees	3	11	17	14	19	23	41
July 1, 2010 to June 30, 2011							
Average Monthly Benefit	\$292	\$632	\$800	\$861	\$2,143	\$2,697	\$2,893
Average - Average Final Compensation	\$67,794	\$45,945	\$37,257	\$30,282	\$58,467	\$54,696	\$54,946
Number of Active Retirees	3	13	27	15	12	31	40
July 1, 2011 to June 30, 2012							
Average Monthly Benefit	\$185	\$503	\$808	\$1,481	\$1,816	\$2,493	\$2,939
Average - Average Final Compensation	\$39,162	\$41,069	\$36,382	\$53,870	\$48,653	\$53,352	\$53,715
Number of Active Retirees	8	21	38	20	36	38	98
July 1, 2012 to June 30, 2013							
Average Monthly Benefit	\$54	\$423	\$864	\$1,288	\$2,242	\$2,731	\$3,195
Average - Average Final Compensation	\$51,821	\$41,897	\$38,802	\$45,825	\$53,213	\$57,811	\$60,578
Number of Active Retirees	5	11	30	19	14	26	34

## COMPLIANCE SECTION

## COMPLIANCE SECTION



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### **Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

The Board of Trustees  
Employees' Retirement System of the City of Norfolk:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Employees' Retirement System of the City of Norfolk (the System), a fiduciary fund of the City of Norfolk, which comprise the statement of plan net position as of June 30, 2013 and the statement of changes in plan net position for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 13, 2013.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the System's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the System's financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the System's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control as described below that we consider to be a significant deficiency:

#### **2013-001: Finance and Accounting Resources**

Over the past few years, the complexity of accounting principles and the related financial reporting requirements have been increasing, which results in a corresponding increase in the complexity of the financial reporting process. This increase in complexity necessitates an evaluation of the depth and number of resources in the accounting function. Currently, the majority of the responsibility to 1) prepare the

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## COMPLIANCE SECTION



Comprehensive Annual Financial Report (CAFR) and 2) determine/prepare year-end closing journal entries rests with one individual.

Segregation of the responsibility to prepare and review financial information is critical to the accuracy and timeliness of the financial reporting process and the ability of an organization to incorporate new and complex accounting standards into the process on a timely basis. We encourage the System to reassess the appropriate number of qualified finance and accounting resources needed to maintain a high standard of quality in financial accounting and reporting and generate accurate financial statements in a timely manner.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the System's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the System's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Norfolk, Virginia  
December 13, 2013